Austria	Sch22	Iran	[illegible]	Philippines	[illegible]
Bahrain	Din0.650	Israel	[illegible]	Portugal	Esc120
Belgium	BFr48	Italy	L1700	Qatar	[illegible]
Canada	C$1.00	Japan	Y600	S.Arabia	[illegible]
Cyprus	C£0.90	Jordan	Fils500	Singapore	S$4.10
Denmark	DKr10.00	Kuwait	Fils.500	Spain	Pta145
Egypt	E£2.25	Lebanon	[illegible]	Sri Lanka	[illegible]
Finland	Fmk7.00	Lux	LFr48	Sweden	[illegible]
France	FFr7.00	Malaysia	[illegible]	Switz	SFr2.20
Germany	DM2.30	Mexico	[illegible]	Taiwan	[illegible]
Greece	Dr130	Morocco	[illegible]	Thailand	[illegible]
Hong Kong	HK$12	Neth	[illegible]	Tunisia	[illegible]
Iceland	Ikr125	Nigeria	[illegible]	Turkey	[illegible]
India	Rup15	Norway	[illegible]	UAE	[illegible]
Indonesia	Rp3100	Oman	Or 1	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,768 Monday February 13 1989 D 8523A

EUROPE 1992
Trying to bring down the barriers
Page 2

World News

Tamil 'Tigers' massacre 37 villagers as poll nears

Tamil militants shot and hacked to death 37 Sinhalese in a massacre in Dutuwewa, a Sinhalese village in the north-east, as Sri Lankan politicians guarded by security men prepared to close their campaign for parliamentary polls. At least 20 people were injured in a separate incident when two bombs were thrown at a United National Party rally at Piliyandala, 16km south of Colombo.
Earlier story, page 6

North case delay

William Rehnquist, US Supreme Court Chief Justice, halted the start this morning of opening statements in the trial of Mr Oliver North, former Marine Colonel and White House aide, over the Iran-Contra affair, following an appeal for a delay from the Bush Administration on the grounds of danger of "irreparable injury and substantial risk" to national interests. Page 2

5 die in book demo

At least five people died, and 30 were injured, when police clashed with Moslems demonstrating in Islamabad, Pakistan, against a book by Indian-born author Salman Rushdie, Satanic Verses. Page 2

Marcos 'critical'

Deposed Philippine president Ferdinand Marcos was in critical condition in a Honolulu hospital after developing a fever while recovering from pneumonia and bronchial asthma.

Iceland split

A row over the possibility of a new NATO airbase in Iceland split the centre-left coalition government.

Shevardnadze visit

Eduard Shevardnadze, Soviet Foreign Minister, will visit Jordan on Sunday during a Middle East tour highlighting Moscow's renewed interest in the area.

Subway gun attack

At least one gunman with an automatic weapon sprayed a crowd with gunfire at a Bronx, New York underground station, wounding six people.

Walesa strike appeal

Solidarity leader Lech Walesa called on workers in Gdansk to refrain from strikes which could harm his position in talks with the Polish Government. Page 4

28 hurt on autobahn

At least 28 people were injured when a French tourist bus careered off an autobahn south of Munich.

EC peace moves

EC would step up efforts to convene an international peace conference on the Middle East, said Francisco Fernandez Ordonez, Spanish Foreign Minister. Page 3

Meningitis outbreak

A fresh outbreak of meningitis has killed 32 people in Sudan, where at least 1,500 died of the disease last year.

Manley in car crash

Jamaican Prime Minister-elect Michael Manley was slightly injured when a car driven by his bodyguard was hit by a van in West Kingston.

Pipeline attack

Pro-Cuban National Liberation Army guerrillas dynamited Colombia's main oil pipeline halting pumping after rebels attacked Arauquita, in eastern Colombia.

Ayatollah's appeal

Ayatollah Khomeini's designated successor, Ayatollah Hossein Ali Montazeri, has urged Iran to erase its image as a nation of killers and appealed for the rapid rehabilitation of dissidents.

Mum's the word

Women in the UK cheat on their husbands almost daily by juggling the household accounts to pay for luxuries such as designer clothes and school skiing trips for their children, according to a survey.

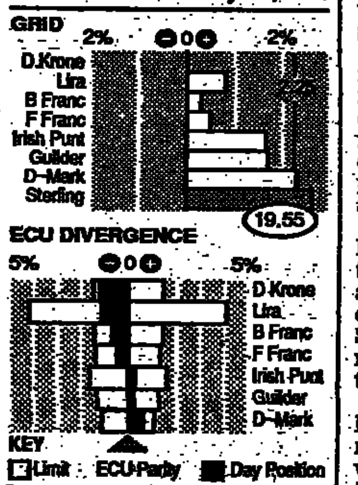
Business Summary

GEC seeks US medical equipment acquisitions

GENERAL ELECTRIC COMPANY, Britain's leading electronics group, is looking for acquisitions to expand its US medical equipment business as part of the sweeping reorganisation on which it has embarked in the last three months. The company has appointed Goldman Sachs, New York investment bank, to help identify suitable purchase targets in both North America and the Pacific region centered on Japan. Page 16

EUROPEAN Monetary System: A record West German trade surplus in 1988 is likely to increase calls for a re-alignment of parities within the EMS. The D-Mark is already the most improved currency in relation to its central rate, and a rise in domestic inflation to 2.6 per cent will place further upward pressure on interest rates. The Danish krone was the weakest member of the system and lost further ground during the week. However, it is still trading within its divergence limit.

EMS February 10, 1989



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.
Currencies, Page 30

SOUTH KOREA is to launch a major drive to increase investment in Europe with a target of 50 manufacturing projects this year. Page 6

HONG KONG'S prime lending rate goes up by half a percentage point to 10.5% today, its first increase since December 5 when it rose half a point to 10%. Page 6

ELKEM, one of Europe's leading light metals producers, has returned to profit for 1988, helped by strong metal prices and a big restructuring. Before extraordinary items, profits for 1988 have emerged at NKr659m ($97.1m) and a dividend of NKr7.50 a share is planned against nil last time. Page 20

US dropped its demand for a right of veto over loans made by the Inter-American Development Bank, clearing the way for a possible agreement by the end of this month on a capital increase for the institution. Page 6

WATERFORD GLASS' 2,000 crystal division workers in Ireland unanimously rejected a management rescue plan which included a pay freeze, the introduction of piecework rates for all craftsmen, flexible holidays and an increase in the retirement age. Page 2

ARAB BANKING CORP, Bahrain's largest off-shore banking operation, achieved a pre-tax profit of $142m for 1988, against previous losses of $203m. ABC said total operating profit last year was $239m before taxes and provisions for doubtful loans. Total revenues were $527m. Page 20

GENERAL SIGNAL, US industrial group, is to develop a £2.5m ($4.33m) research and technical centre in the UK as part of its plans to expand its semiconductor equipment manufacturing business in Europe. Page 20

CHICAGO BOARD OF TRADE is ready to move ahead with the development of an electronic trading system for processing futures trades when its Chicago floor is closed. Page 28

COMPAGNIE BANCAIRE, French financial services group, is to raise FFr1.183bn ($185m) in a rights issue, on the back of a 20% increase in profits last year. Page 20

Baker explores compromise on Nato short-range nuclear arms

By Robert Mauthner, Diplomatic Correspondent, in London and David Marsh in Bonn

MR JAMES Baker, US Secretary of State, arrived in Bonn last night anxious to explore a compromise on the controversial issue of the modernisation of Nato's short-range nuclear weapons, which has divided the western alliance's main partners.

Mr Baker, who is on his first foreign trip since being nominated to his post by President George Bush, earlier met Sir Geoffrey Howe, the UK Foreign Secretary, in London and had further talks with Mrs Margaret Thatcher, the British Prime Minister, over lunch. The Prime Minister said she had been "very pleased" with the discussions.

The US and Britain are worried about the West German Federal Government's stand, clearly underlined by Mr Helmut Kohl, the Chancellor, in an interview with the Financial Times last Friday, that no decision to modernise Lance short-range nuclear missiles was required until 1991-92.

Washington and London insist that a decision must be taken to update the 88 Lance missiles, most of which are based in West Germany, by the middle of this year to ensure that the US Congress approves the necessary funding in time.

West Germany, however, believes that a firm Nato decision to modernise the weapons would send the wrong signals to Moscow just when new east-west conventional forces reduction talks are getting under way.

On his way to London from Iceland, Mr Baker said he wanted to clarify what Mr Kohl had said in his interview. "It depends what he meant by the term modernisation." The Secretary of State appeared to believe that there was room for a compromise.

Mr Baker stressed that his current tour of 15 Nato capitals was primarily "an agenda-setting trip" while the new US Administration formulated its foreign and defence policies.

Mr Baker and Sir Geoffrey found they had a similar "prudent and realistic" approach to the arms control initiatives and economic reform programme of Mr Mikhail Gorbachev, the Soviet leader, according to officials. While the West should not drag its feet in responding to Mr Gorbachev, the success of the Soviet leader's endeavours clearly depended more on internal than external factors.

In their talks on the Middle East, Mr Baker made it clear that the US was not prepared to break off its dialogue with the Palestine Liberation Organisation over an incident in southern Lebanon a week ago, in which Israeli forces killed five guerrill-

In response to Sir Geoffrey's suggestion that trade sanctions against the Soviet Union imposed by the West after Moscow's invasion of Afghanistan in 1979 should be lifted now that Soviet troops had been withdrawn, Mr Baker said he had "an open mind" on the matter. The US would not adopt a firm position until all its allies had been consulted.

On South Africa, the US Secretary of State was reported by officials to have endorsed the British Government's opposition to the imposition of tough sanctions because they could not be enforced properly and because they would lessen the influence that the West could exert on Pretoria.

US-German rivalry, Page 16

US budget proposals unlikely to win early backing of Congress

By Peter Riddell, US Editor, in Washington

THE CHANCES of early agreement on the US budget proposals outlined last Thursday by President George Bush are receding fast in the face of growing criticism by leaders of the Democrat controlled Congress.

After an initial cautiously favourable reaction to the President's spending priorities, closer reading has led to increasing doubts being expressed about the detailed plans and the economic assumptions.

Mr Richard Darman, the Budget Director, is due to meet today with Senator Jim Sasser and Mr Leon Panetta, the chairmen respectively of the Senate and House Budget Committees, to discuss the timetable and form of negotiations.

However, both chairmen have warned that Mr Darman must be more specific on where expenditure savings are to be achieved if serious talks are to begin. Their concern is particularly focused on $136bn of discretionary domestic programmes which the Administration proposes to freeze in cash terms at current levels without saying where adjustments should be made.

This total includes a range of welfare, child support and environmental protection programmes and rail subsidies, all of which have strong political backing. Holding spending on these items frozen in cash terms rather than maintaining the current level of services in real terms saves some $10bn.

The Democrats argue that President Bush wants to claim the credit for increases in popular social programmes while leaving Congress with the blame for making the necessary cuts in other areas to achieve the deficit reduction target. But Mr Darman has repeatedly insisted that it is up to Congress to identify and agree these savings.

At present, a considerable amount of manoeuvring is under way, with leading Democrats warning that agreement may not be reached until the late summer.

For the Administration, Mr Michael Boskin, the chairman of the President's Council of Economic Advisers, has warned that it would be better to have across-the-board cuts on spending, to meet the budget deficit reduction target than to have "a major change" in Mr Bush's priorities. He defined a major change as "tax increases or dramatic increase in spending on things we don't think are necessary."

Leading Democrats believe that some increase in taxes is inevitable, either this year or next, but they are not going to be the first to propose them. Mr Dan Rostenkowski, the chairman of the tax-writing House Ways and Means Committee, said yesterday that his preference would be for a rise in gasoline tax or in excise duties on alcohol and tobacco.

Mr Rostenkowski underlined his desire to keep the income tax code agreed after the 1986 reforms "intact for several years." But he warned that if President Bush insisted upon cutting capital gains tax to 15 per cent there was "no way to hold back the House from raising the top marginal rate."

Mr Darman said later in reply, "we're certainly not going to bring up taxes. If the other side wishes to bring up taxes, we'll have to discuss it on the merits."

Editorial comment, Page 14

Mitterrand: strident onslaught

Mitterrand attacks 'predatory money'

By George Graham in Paris

PRESIDENT François Mitterrand of France yesterday counter-attacked vigorously after weeks of criticism of his government's involvement in a series of stock market scandals.

In a strident onslaught against the "gangsterism of the strongest" which he said reigned in the stock market, Mr Mitterrand pledged to take measures to defend French companies from "this roving, predatory money."

"If these takeovers continue like this, there will not be a single French company left which is capable of resisting the weight of money from overseas," Mr Mitterrand said last night in his first major interview for seven months.

"These companies can count on me to put in place a system which will prevent the ruin of the French economy, prevent its pillage, especially within

Continued on Page 16

Estonia set to refuse implementation of Moscow co-op rules

By Quentin Peel in Tallinn

THE TINY Soviet republic of Estonia is set to throw down a new constitutional challenge to the might of Moscow this week, by refusing to enact new restrictions on co-operative businesses as demanded by the national authorities.

The decision, expected to be confirmed by the Government of the 1.5m-strong Baltic republic, would amount to the first time that Estonia has defied the constitutional power of the USSR on a practical issue.

It could bring to a head the constitutional crisis simmering since November, in which Estonia has demanded the right to veto national legislation within the republic – and the Kremlin, represented by Mr Mikhail Gorbachev himself, has flatly rejected the demand.

Despite a formal resolution by the USSR Supreme Soviet, declaring the amendment to the Estonian constitution passed in Tallinn last November was contrary to the Soviet version, Estonia has refused to back down.

The decision on co-operatives – the Soviet version of private enterprise – will put those amendments into effect, by refusing to outlaw some of the categories of business which have been banned my Moscow since February 1.

Estonian television has already announced that co-operatives involved in publishing and in video clubs will still be allowed to operate in the republic, although they are not allowed in the rest of the Soviet Union.

"We have simply not registered this decree." Mr Olev Lugus, director of the Estonian Institute of Economics, said last week. "It will be discussed in our government next week and we expect they will give permission for video and publishing co-operatives to continue, and perhaps some others, too."

The Moscow decree, approved by the Council of Ministers on December 29, also outlaws many forms of medical co-operatives and the manufacture and sale of religious souvenirs.

The Estonian move, in response to strong public pressure from the mass Popular Front movement to put the theory into practice, also has the essential support of the Communist Party leadership in the republic.

"It will not help us to shout about it at every street corner but we will not abide by all (Moscow) decisions." Mr Peeter Sookruus, deputy head of ideology in the party's central committee, said. "We should simply start implementing the all-union decisions in our own way, so that they won't harm us.

The co-operative restrictions have already been criticised in Moscow as a reversal of previous official encouragement for the co-operative movement.

Lawson warns markets that UK inflation will exceed 7%

By Peter Norman, Economics Correspondent, in London

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, warned that inflation in January would show a "particularly marked" rise with the year-on-year increase in the retail price index exceeding 7 per cent.

In a speech to his constituency party at the weekend, the Chancellor said the effect of mortgage rate increases last month "will alone take recorded inflation above 7 per cent." He added that the underlying rate of inflation, which in Mr Lawson's view excludes mortgage interest payments, must now be some 2 per cent lower than that registered by the retail price index.

Mr Lawson's remarks, which were released by the Treasury, appeared to be an attempt to soften financial markets for bad news when the official inflation figures are released on Friday.

He used the same technique last month with considerable success when he signalled in advance an acceleration in the annual rate of inflation. The eventual announcement that inflation jumped to 6.8 per cent in December from 6.4 per cent in November last year had only a minor impact.

The Chancellor's weekend disclosure drew a sharp response from the opposition Labour Party. Mr John Smith, Labour's economics spokesman, said Britain now had one of the highest rates of inflation in the industrialised world.

Speaking on BBC television, Mr Smith said a credit explosion and an irresponsible budget last year had fuelled inflation that was now damaging the economy and poorer people in particular.

Mr Gordon Brown, shadow chief secretary, said Friday's figures would mean that inflation had doubled in a year. "I hold Nigel Lawson directly responsible for a series of inflationary own-goals."

Rises in water, electricity, gas, rates, poll tax and the new health services charges were still to follow, Mr Brown added.

Mr Lawson's disclosure that the annual rate of inflation was running above 7 per cent will have caused no surprises in the London financial markets. The consensus among forecasters before the weekend was that inflation rose by 0.5 per cent between December and January and was 7.3 per cent at an annual rate last month.

The last time inflation stood as high as 7.3 per cent was in September 1982, when it was decelerating rapidly from the double digit levels of Mrs Margaret Thatcher's first years as Prime Minister. She was elected premier in 1979.

January's increase in building society mortgage rates to 13.5 per cent from 12.75 per cent will have added 0.3 percentage points to December's 110.3 retail price index.

British Rail fare increases will have boosted the index by a further 0.06 percentage points, and London bus and underground fare rises will have added another 0.02 points. January is also a month in which higher school meal charges and seasonal food price variations often have an impact on the inflation rate.

Mr Lawson was confident that inflation would come down later this year. "There is always a lag between the effect of higher interest rates on consumer spending, where a slowdown is already clearly apparent, and their effect on inflation, which is bound to rise further before it starts to come down again, as it surely will later this year," he said.

As in the past, he blamed the jump in the price index on "the perverse inclusion" of mortgage interest payments in the basket of goods and services used to compile the retail price index.

After stripping out mortgage interest rate effects, December's annual rate of inflation rate was only 5.1 per cent. Last month, Mr Lawson forecast that this underlying inflation rate would edge upwards to about 5.5 per cent in the early part of this year.

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THE MONDAY INTERVIEW

Mr Ryuzaburo Kaku, president of Canon, the Japanese photocopier, laser printer and camera group, is charting a new course he says the country must follow if it is to live at peace with the rest of the world
Page 34

First reactions to EC savings tax plan today

By David Buchan in Brussels

FIRST signs of whether the European Commission's controversial new plan for a minimum savings tax is politically feasible will come at a meeting of the members states' finance ministers here today.

The plan for a minimum 15 per cent tax at source on bank savings and bond income requires unanimity of the 12 governments. The UK and Luxembourg have stated opposition in principle to any such Community-wide tax, West Germany wants a lower rate, and the Netherlands looks likely to join criticism of the tax plan today.

The Commission has coupled the withholding tax idea with a plan for improved co-operation among EC tax authorities, to reduce risk of tax evasion and of destabilising capital movements after July 1 1990. That is the date set for the lifting of all foreign exchange controls by the Community's eight richest member-states, though such controls have disappeared in some EC countries such as the UK, West Germany and the Netherlands.

Countries such as France and Italy are worried about loss of tax revenue and about monetary instability after mid-1990. Today, France can be expected to lead the support for the tax plan, tabled by Mrs Christiane Scrivener, one of its EC Commissioners.

UK officials noted the proposed exemption for Eurobonds. but claimed it would probably raise the cost of other forms of borrowing for Community companies.

Luxembourg fears the withholding plan would apply to so-called UCITS funds. These managed funds have been establishing themselves in that country, with a view to being able to operate across the Community from a single base there as of next October.

Luxembourg allows funds to capitalise their income tax-free by retaining it within their portfolio rather than paying it as distributions to investors. The Commission says its 15 per cent tax would apply regardless of whether the income were paid out. EC officials said UK investment funds would not be affected, being already subject to corporate tax. Dividends from shares have generally been exempted from the Commission tax plan, which affects domestically issued and trade bonds, as well as all bank interest currently liable to tax in the Twelve.

Accompanying the Scrivener plan has been speculation that it will push money outside the Community, or to the Channel Islands and the Isle of Man, UK tax havens which would not be covered by the plan.

As president of the EC Council, Spain is planning early consideration of the savings tax plan.

Bringing down the psychological barriers

Tim Dickson assesses the EC's progress in creating a single market for food

THE European Court of Justice is providing plenty of food for thought in Brussels. Only 10 days ago, for example, it emphatically rejected West Germany's ban on imported sausages, dismissing claims that soya-filled foreign sausages pose a threat to the German eater's health.

In earlier judgments, it threw out an Italian law that pasta was to be made from hard as opposed to common wheat, showed no respect for the 470-year-old Reinheitsgebot that protected the quality of German beer, and ordered the French Government to accept Edam cheese with a fat content of less than the 40 per cent prescribed under national law.

Trade barriers based on legally enforced recipes have long been the stuff of good knockabout copy. Mr Paul Gray, the Commission's leading expert on food policy, likes to amuse audiences with his image of the "vicious triangle" – Germany's ban on French beer, Italy's prohibition on German pasta, and France's refusal to countenance sales of a certain type of Italian salami on its national soil (not incidentally the subject of the court case).

Such stories, however, have a serious point. The way in which the European Court has been turning Mr Gray's vicious triangle into a virtuous circle has important implications for the development of Community food law and the prospects for a single European market in foodstuffs after 1992.

Food has always been a sensitive political issue in the European Community – more so in continental countries than in Britain, even if headlines about salmonella in eggs convey the opposite impression.

However, the generally slow progress in opening national markets during much of the last 30 years probably owes more to the way in which member states originally tried to harmonise their widely different approaches and peculiarities in this area.

Until the early 1980s, it was still conventional wisdom that technical barriers to trade in foodstuffs arising from national legislation could only be removed by creating a specific European Community law of the same nature.

The idea of trying to define precisely an acceptable composition of ingredients for each food product, for instance, lay behind the ambitious programme drawn up by the Commission in 1969 (revised in 1973) comprising proposed directives on roughly 50 sectors which included bread, pasta, soups and ice cream.

Pursuit of agreement from 12 (or even 10 or nine) different ministers on the precise recipe for each foodstuff proved hopelessly unrealistic, and less than half the measures put forward in the 1969/73 package have since been translated into Community law. More rapid progress, though, was made on more general matters such as additives and labelling, which today form the basis of the Community's newly developed "horizontal" approach.

A significant event in this process, as every good student of 1992 now knows, was the landmark Cassis de Dijon ruling of 1979 when the European Court first established the now central principle of mutual recognition. Mutual recognition (of other member countries' standards) has also been applied to other areas of EC policy with considerable success but it marked a particularly important breakthrough in the difficult negotiations over food.

1992 THE EUROPEAN MARKET

What Cassis de Dijon laid down – and what the court has consistently upheld in subsequent judgments on the likes of pasta, sausages and beer – is that food should be freely traded across frontiers provided it is shown to be safe and provided it is adequately labelled for the information and protection of consumers.

As the 1985 Internal Market White Paper made clear there was no need to continue with the old sector-by-sector or "vertical" approach. Rather, the emphasis could switch to the much broader issues of public health concern, labelling, the encouragement of fair trading, and the ensuring of adequate public controls.

"The purpose of EC food law now is essentially to define the social contract between the buyer and the seller – to make sure that the buyer knows what he is buying," explains Mr Gray.

The foundation of the policy rests on so-called "framework" directives which cover food additives, materials and articles in contact with foodstuffs (packaging); foodstuffs for particular nutritional uses (dietetic foods); and labelling.

These were put forward by the Commission in early 1986 but agreement was only reached last year after a long-running, highly technical but most important dispute between member states and the Commission as to which EC institution should supervise the committees set up to work out the detailed application of each directive.

The fact is that, while member states have now agreed to the broad principle of mutual recognition, a great deal of difficult negotiation lies ahead on matters such as the list of permitted additives, the precise materials deemed safe under Community law, and the exact wording which should be used to tell consumers what they are buying.

The most sensitive and complex area, the experts say, will be in laying down conditions of use in each food category for the 500 or so additives now on sale. The work will be based on the admissable daily intake (ADI) levels set by scientists as an indication of what is safe for consumers. However, in that member states have insisted on keeping control of these discussions through the Council of Ministers, there are bound to be political bumps along the way.

Existing "vertical" directives (on jams, coffee and fruit juice, for example) will not be abandoned – but they only cover a tiny proportion of cross-border trade and any developments in future will be co-ordinated to the "horizontal" approach.

Despite general support for the Commission's policy there are strong vested interests in some member states (notably France and West Germany) which will continue to fight a rearguard action. The agricultural lobby – including the powerful Agricultural Directorate, DG VI, within the Commission itself – instinctively seeks to restrict developments in the food industry so as to protect farmers.

As a memorandum from the French Government to the Council of Ministers put it last year: "The principle of free movement of foodstuffs combined in certain sectors with unrestricted naming and composition practices, could result in industrial synthetic products displacing agricultural products to an excessive degree, thus depriving the latter of their natural outlets and increasing the costs of administering the Common Agricultural Policy."

A good example of this thinking was the fierce battle by Paris and Bonn – openly linked to the cuts in dairy quotas – to keep their long-standing bans on imitation milk products such as cream toppings. The court firmly rejected the idea that food law should be subservient in any way to the CAP in both the pasta and sausage judgments.

Fears are also voiced that food quality will suffer from the "new approach" but the Commission responds that traditional recipes and regional varieties will not be affected. Indeed, they should flourish in the newly competitive environment. There is nothing wrong with protecting a name, according to thinking in Brussels, provided the consumer is allowed to choose.

De Mita faces party attempt to unseat him

By John Wyles in Rome

A LENGTHY struggle by Mr Ciriaco de Mita, Italy's Christian Democrat Prime Minister, to preserve authority over his party and his coalition government is heading for an unpredictable climax during the next seven days.

Political talk and calculation in Italy has been dominated for the past fortnight by preparation for the Christian Democrat party congress, which will open on Saturday with the apparent intention to displace Mr De Mita as party secretary.

After seven years at the top – an uncommonly long period for a secretary of the party – he appears resigned to losing what may well be the most politically powerful throne in Italy.

Jealousy of the patronage and influence which Mr De Mita has concentrated on himself has been growing among factional leaders in the party, which is more a collection of interests than a coherent organisation. Allowing him to keep the *doppio incarico* (double job), by retaining the secretaryship after ten months as premier, goes against every instinct in a party that favours a broad distribution of power.

If he cannot be secretary himself, Mr De Mita wants to put his own man at the top of the party, arguing that it and his government must ride in tandem. So far, however, Mr De Mita has avoided posting a nominee and no name has come from his principal rivals – Mr Antonio Gava, Interior Minister and leader of the faction controlling about 40 per cent of the party, and Mr Giulio Andreotti, Foreign Minister, who controls 20 per cent.

The only formal nomination has come from Mr De Mita's own faction on the party's left, which is sponsoring Mr Mino Martinazzoli, the party's group leader in the lower chamber of Parliament.

Mr De Mita told a conference at the weekend that the party was offering a poor image of itself. "If we reduce everything to the strict logic of power, we shall not make ourselves understood."

All the efforts this week will aim to avoid a divided Congress by agreeing on a candidate for the secretaryship agreeable to all factions.

The current favourite is Mr Arnaldo Forlani, party president, whose present post could be transferred to Mr De Mita as a symbolic emblem of the harmony between party and government, the absence of which has unseated many an Italian Christian Democratic prime minister.

Chief Justice delays North case

By Peter Riddell, US Editor in Washington

MR William Rehnquist, the Chief Justice of the US Supreme Court, last night intervened to halt the start this morning of opening statements in the trial of Mr Oliver North, the former Marine Colonel and White House aide, over the Iran/Contra affair.

In a one-page order, Mr Rehnquist said the full nine-member court would take up the case this Friday and the trial will now be delayed until further order of the court. This follows an appeal for a delay from the Bush administration on the grounds of the danger of "irreparable injury and substantial risk" to national interests.

After being turned down last week by the trial judge and the US Court of Appeals, Mr Richard Thornburgh, the US Attorney General, on Saturday applied to the Supreme Court for a stay of the case. Opening statements were due today on the charges related to the sale of arms to Iran and the diversion of profits to the Nicaraguan Contras.

The Administration is worried that the lawyers for Col North will reveal highly sensitive secrets that will damage US national security before it has a chance to object.

If the Administration loses in the Supreme Court, the Justice Department has indicated that it may seek to bar the disclosure of certain categories of secrets at the trial. This might lead to the dismissal of most, or all, the 12 charges against Col North, since his defence lawyers will argue that he is being denied evidence relevant to the trial.

A fierce legal argument has developed between the Justice Department and Mr Lawrence Walsh, the independent special prosecutor, who has argued that US intelligence agencies have exaggerated the risk of breaches of national security if the trial goes ahead. Judge Gerhard Gesell, who is trying the case, believes it can go ahead on the basis of censorship rulings already issued.

More problems for Tower nomination

By Peter Riddell

THE NOMINATION of Mr John Tower as US Defence Secretary is meeting more problems through fresh allegations over his financial dealings.

The latest charge is over whether he was entirely frank in his recent evidence to the Senate Armed Services Committee about his role as an adviser to British Aerospace. He said this had mostly been in the civilian market, not military. He earned more than $200,000 as a consultant and member of the board of BAe's US subsidiary from mid-1986 until the end of last year.

But the Los Angeles Times reported that, in a 1987 divorce deposition, Mr Tower said he advised the group on commercial aviation sales and military systems sales to the US Defence Department.

There is no suggestion of illegality, but this discrepancy further muddies an already murky pool of rumours and mainly unsubstantiated allegations.

President Bush has pledged support. Several commentators believe Mr Tower will be confirmed when the Senate returns next week from recess, provided nothing else were proved against him.

Five killed in anti-US riots over Rushdie book

By Christina Lamb in Islamabad

AT LEAST five people were shot dead and more than 30 injured when anti-American riots broke out in Islamabad against the proposed publication of a book considered anathema to Islam.

The casualties included Maulana Fazalur Rehman, leader of the religious party Jamiat-ul-Islam, and Senator Maulana Kasur Niazi.

Police used rocks and tear gas, then opened fire, to break up thousands of protesters who set light to motorcycles on the main road outside the American Centre in demonstrations which lasted four hours.

The US flag was pulled down and almost every window broken in the building, which had been closed in anticipation of trouble. A heavy guard has been placed around the US embassy, now closed for security reasons.

The book, The Satanic Verses, by the UK-based Indian author Salman Rushdie, is due to be published in the US. It has been denounced by Moslems and has already been banned in various Islamic countries, including Pakistan.

Waterford plan rejected

By Kieran Cooke in Dublin

THE 2,000 workers in the crystal division at Waterford Glass in Ireland have unanimously rejected a management recovery plan which included a pay freeze, introduction of piecework rates for all craftsmen, flexible holidays and an increase in the retirement age.

Waterford announced last month that "accountancy errors" in the crystal division would mean that performance would be well below the expected level.

Since late 1987, when management began a radical I£50m (£41m) rationalisation programme, the workforce at Waterford's crystal division has been reduced by a third. It became clear last month that production cost savings were well below expectations.

Speakers at a meeting of workers claimed the workforce was being asked to pay for management "mistakes".

Poor weather threatens world cereal output

By John Wyles

FURTHER upwards pressure on world cereals prices may be in prospect because poor weather conditions appear to be wiping out any chance of a large enough crop to meet global demand and replenish stocks.

The United Nations' Food and Agriculture Organisation warned in its Food Outlook published on Friday that early indications were that the level of production required to raise stocks from already low levels would not be achieved.

The report pointed specifically to the lack of moisture, inadequate snow cover and extremely low temperatures affecting the winter wheat crop in the US. Poor growing conditions for winter grains are also reported in North Africa, parts of China and southern Europe.

FAO estimates that world cereal output last year was 59m tonnes down on 1987 at 1.743bn tonnes. At 287m tonnes, stocks were 111m tonnes lower than the year before and below the level – equivalent to around 18 per cent of consumption – that is regarded as safeguarding world food security.

Wheat and coarse grain prices are currently at their highest levels since 1982 in world markets, with the export price of US wheat 35 per cent above that of a year ago.

Mrs Mandela denies reports

By Anthony Robinson in Johannesburg

MRS Winnie Mandela, wife of the jailed African National Congress leader Mr Nelson Mandela, last night angrily denied Sunday newspaper reports which, she said, if true, would make her an accomplice to murder.

Mrs Mandela told the Financial Times by telephone that a report in the Sunday Star contained "derogatory, insulting and libellous accusations". She was consulting with her lawyers and would take legal action to have these refuted in court.

She expressed surprise that the police had not yet involved her in any formal inquiries, despite the fact that a full-scale investigation was under way.

Mrs Mandela said she still had many supporters inside and outside South Africa and added; "We are not the real target of these allegations. The real target is the ANC and the progressive movement."

She denied reports that the ANC leadership in exile was angry about the way the so-called Mandela football team had brought the Mandela name "into disrepute" and added: "Comrade Mandela is supportive of the family. There are no strains in the marriage".

The football team is a group of youths who sought refuge at Mrs Mandela's home during township violence and who functioned as an unofficial bodyguard. Mrs Mandela said yesterday it had been disbanded, and only six youths remained in her house.

Last week Mr Adriaan Vlok, Minister of Law and Order, said police had set up a full-scale investigation into reports that members of the Mandela Football team had abducted four youths from a mission in Soweto after Christmas.

One of the youths, Stompie Moeketsie, 14, has not been seen since.

Mr Vlok said police knew the youths had been taken to Mrs Mandela's house by members of the soccer team. According to Mrs Mandela, the youths were taken from the mission to save them from sexual abuse.

A Soweto physician, Dr Abubakar Asvat, had examined the children, she added. A day later he was shot dead by two youths who are being sought by police.

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EC to step up push for Middle East peace talks

By Tony Walker in Cairo

THE European Community would step up its efforts to persuade all parties in the Middle East dispute to convene an international peace conference, although such a conference might be some way off, Mr Francisco Fernandez Ordóñez, Spanish Foreign Minister, said yesterday.

After high-level meetings in Amman and Cairo at the weekend, as part of a concerted EC effort to promote resumption of the peace process, he said the Community was anxious to move from the "level of declaration to one of active diplomacy".

Mr Fernandez Ordóñez, speaking for a three-man Community mission after a 90-minute meeting with President Hosni Mubarak of Egypt, added: "I think we share the impression that maybe 1989 could be the start of the peace process. But I don't dare make any concrete prediction about when the international conference will be held".

The Spanish minister – with his counterparts Mr Karolos Papoulias of Greece and Mr Roland Dumas of France – were respectively representing the present, previous and next holders of the EC's rotating presidency. They had been asked by the Community to explore ways to advance progress to peace in the Middle East.

The ministers will report their findings to their EC colleagues in Madrid tomorrow. They will make recommendations for action.

Mr Fernandez Ordóñez said one of the EC's main tasks was to encourage a change in the attitudes of the main parties to the dispute.

It was important to start a consultation that would pave the way for an international conference. He stressed the vital role that the EC as a bloc could play in such a process.

Israel has opposed the convening of an international conference.

Arab states, principally Egypt and Jordan, have been pushing for a conference attended by all parties to the dispute, under UN auspices, as a way to revive the peace process.

Central America seeks to close UN deal

PRESIDENTS OF five Central American states will seek to finalise agreement on terms for the establishment of a UN military observer force along their common borders at a long-delayed summit meeting starting here today, writes Richard Johns in San Salvador.

Leaders of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua are expected to endorse, in some way, the accord reached last week by their foreign ministers in New York in talks with Mr Javier Perez de Cuellar, UN Secretary-General, whereby he would draw up proposals for "verification" of the peace plan signed by the five in August, 1987. One weakness of the agreement, known as Esclpulas II, which won the 1987 Nobel Peace Prize for its architect, President Oscar Arias of Costa Rica, was the lack of any system of enforcement.

Differences remain to be resolved, not the least the objections of Costa Rica to any outside military presence. El Salvador, whose regime is locked in a seemingly intractable war with left-wing guerrillas, wants supervision restricted to the Gulf of Fonseca.

Mr Perez de Cuellar is understood to have told foreign ministers that an supervisory force must be armed to be effective.

Another problem to be surmounted is Nicaragua's dispute with Honduras over the presence on its territory of US-backed Contra guerrillas, a case which Managua is pursuing in the World Court.

The Sandinista regime hopes that its offer to repatriate the forces denied US military aid by Congress for the past year might settle this issue.

El Salvador, host of a meeting postponed four times, could be embarrassed by the initiative taken by the Farabundo Marti Liberation Front (FMLN) in offering to take part in the democratic process if elections scheduled for March 19 are put off until mid-September.

One of the key points of the Arias Plan is the holding of free democratic elections and national reconciliation through amnesty and dialogue.

Nicaragua in mood for a consensus

Tim Coone reports on issues facing the Central American summit

ONE of the key issues to be raised at today's Central American summit will be that of the regional democratisation process, in which Nicaragua, for right or wrong, will be the principal defendant in the dock.

True to character, though, President Daniel Ortega will not be arriving without a proposal. A "social pact" (the nearest translation of the Spanish "concertación") is in gestation in Nicaragua and which he will present as evidence of the new climate of rapprochement in Nicargua.

Detailed discussions have been held recently between senior officials in the economy and finance ministries and representatives of the private sector, to lay the basis of a "concertación" – in effect a truce in which the Government, private business and the trade unions will forget their differences and work together to reverse the downward slide of Nicaragua's economy, suffering the alarming combination of deep slump and hyper-inflation.

According to Dr Gilberto Solis, executive secretary of Nicaragua's Chamber of Industry, "the actual climate is now favourable for an agreement and is better than at any time in the past 10 years".

The Government appeared to be considering important changes in economic policy as part of a continuing package of new measures to halt the country's runaway inflation, including liberalisation of foreign trade.

The Government's control of trade in all export products such as coffee, cotton and beef since the 1979 revolution did much to wrest economic and political influence from the power groups that previously prevailed.

Harsh deflationary measures including a 40 per cent reduction in government spending, were announced by President Ortega last month, and are expected to create a further sharp downturn in domestic demand this year.

The Government hopes farmers and manufacturers will be able to export their produce to the Central American market, and appears willing to allow the private sector to play a much greater role than in the past by allowing producers to export directly. A gradual move towards a unified exchange rate is now official policy, to further encourage exports.

As if to underline the Government's search for its lost consensus with the private sector, since last week the Sandinista party paper "Barricada" began publishing daily a list of key economic indicators, which includes exchange rates, futures prices for cotton, coffee and sugar in New York and even the latest international oil and gold prices.

The government-controlled television station has also followed suit, and financial information is given during the night's main news programme.

As Dr Solis said: "I actually believe the Government has started to begin talking our language."

Other business leaders are more cynical, such as Mr Enrique Bolanos, the still-influential ex-president of the private-sector umbrella organisation Cosep, who insists that there has to be a political settlement, including the US-backed Contras, before the private sector will enter into any economic pact with the Government.

Ortega: social pact

The Government for its part insists it will only discuss political issues with the opposition parties and has begun to sound them out on reviving the moribund "National Dialogue". Neither are renewed talks with the Contras ruled out.

After eight years of armed conflict, both sides have fought each other to a standstill with little achieved except heavy loss of life and economic destruction. One cannot help but feel a sense of irony and déja-vu in the efforts to find a new consensus.

In last week's "Barricada", the Finance Minister Mr William Hupper, said: "The central objective of the economic policy is to reduce the level of public spending and investments and manage credit and exchange rate policy in a realistic way and without subsidies. . . to do nothing in the face of inflation has an enormous cost on the economy."

Mr Alfredo Cesar, the former Central Bank president, who is now one of the Contra leaders, resigned in 1982 over a severe policy disagreement with the Sandinista leaders. His proposal was to implement precisely the adjustment policies that Mr Hupper is now enacting. Inflation then however was only 25 per cent a year; now it is more than 1,000 times that.

If economic policies were the only issues separating the Nicaraguans and the Central American presidents, agreement might now be straightforward. Other issues still remain, such as the control of cross-border insurgencies and human rights violations, and on which Nicaragua's neighbours have much more to answer, as do the Contras.

But for the first time in years, in Nicaragua as in Central America, a consensus of common interest is appearing which seems to be greater than the sum of the remaining differences. The summit will be the litmus test of those changes and if it proves positive, Central America may finally be on course for peace.

Court revives plan to shut New York nuclear plant

By Roderick Oram in New York

PLANS TO close the controversial Shoreham nuclear power station near New York City were revived over the weekend by a favourable ruling and mediation proposal from a federal court.

Both the plant's owner, Long Island Lighting Company (Lilco), and its opponents responded favourably to the proposed settlement which avoids the political hurdles that killed earlier plans. If they reach final agreement, Shoreham would be the first nuclear power station in the US to be dismantled without ever being used.

The impasse over the 20-year old plant was broken when Judge Jack Weinstein threw out a lower conviction of Lilco on racketeering charges.

The utility's opponents alleged that it had lied to state regulators to win higher electricity charges to help finance the $5.4bn plant. Rebates to its customers arising from the conviction could have cost Lilco up to $1bn, hastening its bankruptcy.

Judge Weinstein's ruling added fuel to the controversy about the mushrooming use of the US's Racketeer Influenced and Corrupt Organisations (Rico) law.

He said that it had been misapplied in the Lilco case which should have been heard by the state's utility regulatory commission.

He warned of "the extreme dangers of over-reaching" when prosecutors try to apply the law to civil cases. Debate over Rico is particularly heated on Wall Street where Mr Rudolph Giuliani, the US Attorney for New York, has used the threat of Rico charges to win settlements from investment bankers. Most notably Drexel Burnham Lambert felt he had pressured it into agreeing to pay $650m in penalties and plead guilty to six minor charges arising from a two-year investigation of its business practices.

Rather than pursue the Lilco case in other courts, Shoreham's opponents said that they were interested in accepting the proposals.

Israeli general strike averted at last minute

By Andrew Whitley in Jerusalem

A GENERAL strike which would have paralysed Israel was averted at the last minute on Saturday night, with the signing of an agreement between the Government, trade unions and private sector employers on a long disputed cost of living pay award.

Mr Yisrael Kessar, secretary-general of the powerful Histadrut labour federation, said that with the agreement "The Government has taken a step towards the Histadrut and workers".

In a reminder that it remains a factor to be reckoned with in economic policy-making, the labour federation had called an open-ended strike of all members, to back up its demand for a backdated pay award and changes in the Government's budget proposals.

A lengthy stoppage by the Histadrut's estimated 1.2m trades unionists – over 80 per cent of the country's workforce – would have had a highly damaging impact on Israel's economy at a time of continuing slide into recession. But the brinkmanship which Mr Kessar has honed to a fine art over many years paid off.

With literally minutes to go before the strike was due to take effect, at midnight on Saturday, the Treasury and the Manufacturers Association – representing the public and private sectors – caved in. All Histadrut-affiliated workers will thus receive a 6 per cent pay award for the period from October 1988 to March 1989 – when no formal cost-of-living agreement was in force – to be paid out in stages over the coming 12 months.

In earlier negotiations, Mr Shimon Peres, the Finance Minister and Labour Party leader, buckled in to Histadrut pressure and agreed to a number of budget changes which temporarily reverse several of the government's long-term economic goals.

Among these aims have been cutting Israel's high marginal rates of personal taxation and reforming the notoriously inefficient, and grossly indebted, national health service, Kupat Holim Clalit, associated with the labour movement. A second attempt in three years at levying modest consultation charges at Kupat Holim clinics has thus been dropped. Top rates of taxation, meanwhile, are to rise from 48 to 51 per cent, reversing a cut implemented by Mr Moshe Nissim, the former Finance Minister.

Speaking after Saturday's marathon bargaining session was over, Mr Peres noted that the advancement of the workers could not be ignored, even during a difficult hour for the economy.

Montazeri's note of caution

IRANIAN leaders have marked the 10th anniversary of the Iranian Revolution at the weekend with celebratory mass rallies and speeches, but Ayatollah Hussein Ali Montazeri, designated successor to Ayatollah Khomeini, struck a note of moderation and caution, Kamren Fazel reports from Tehran.

"Often we showed obstinacy, shouting slogans that shut us off from the rest of the world. The people of the world thought our only task in Iran was to kill people," he said.

"There is nothing wrong with celebrating the first decade of the Islamic Revolution, but a wise celebration should be re-evaluation of what we as the people of Iran have done in the past 10 years."

Ayatollah Montazeri blamed Iranian mistakes for the fact that many Iranian experts live abroad and are reluctant to return.

President Ali Khamenei told a rally in Tehran that Iran was ready to establish relations "with every country that doesn't plot against us.

"Today our revolution is stronger than ever despite the many obstacles placed in its way during the first 10 years by the oppressor powers."

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Hitachi Zosen Corporation

(the "Company")

U.S. $60,000,000 11½ per cent. Guaranteed Notes Due 1990

(the "Notes")

NOTICE IS HEREBY GIVEN, that pursuant to Condition 5(a) of the Notes, the following Notes of the Company indicated below in the *aggregate principal amount of U.S. $20,000,000 have been called for redemption on March 15, 1989 (the "Redemption Date")* at a redemption price (the "Redemption Price") of 100% of the principal amount thereof.

SERIAL NUMBERS OF NOTES CALLED FOR REDEMPTION

3	541	1019	1495	1855	2446	2910	3362	3876	4318	4793	5251	5785
4	544	1021	1503	1957	2449	2911	3364	3878	4321	4798	5253	5790
6	547	1025	1504	1964	2450	2915	3367	3883	4323	4800	5256	5792
7	555	1028	1507	1970	2452	2919	3368	3885	4326	4802	5259	5794
10	556	1034	1511	1984	2453	2922	3370	3887	4330	4803	5260	5795
20	559	1039	1513	1986	2458	2929	3375	3888	4331	4807	5265	5796
22	560	1040	1518	1988	2460	2930	3376	3893	4336	4809	5272	5798
23	565	1044	1519	1989	2462	2933	3379	3896	4343	4813	5273	5806
26	568	1050	1521	1992	2465	2936	3381	3897	4345	4814	5281	5807
29	573	1051	1522	2000	2468	2939	3385	3898	4348	4815	5288	5809
32	580	1052	1524	2002	2489	2942	3391	3899	4350	4817	5293	5811
33	581	1058	1529	2003	2490	2945	3393	3902	4351	4818	5307	5813
35	582	1060	1530	2005	2501	2947	3395	3910	4354	4819	5308	5814
36	583	1064	1538	2008	2504	2953	3403	3912	4355	4820	5310	5815
38	586	1065	1539	2012	2507	2954	3405	3918	4357	4828	5311	5822
39	592	1066	1543	2013	2508	2955	3406	3922	4360	4840	5312	5832
43	594	1069	1544	2018	2512	2961	3408	3924	4361	4841	5313	5834
45	598	1071	1550	2026	2517	2962	3409	3928	4363	4848	5314	5835
46	601	1073	1555	2027	2520	2965	3411	3931	4368	4849	5316	5836
51	602	1075	1556	2029	2521	2967	3412	3932	4370	4855	5318	5839
63	605	1076	1557	2031	2522	2971	3419	3936	4376	4856	5320	5840
67	606	1077	1567	2033	2526	2973	3426	3943	4380	4857	5321	5846
69	615	1079	1574	2039	2531	2975	3427	3945	4382	4860	5325	5848
75	616	1081	1575	2041	2539	2977	3437	3946	4384	4863	5326	5850
76	617	1084	1576	2042	2549	2979	3440	3949	4387	4867	5327	5856
78	618	1091	1577	2046	2551	2984	3443	3951	4389	4869	5328	5857
79	622	1098	1582	2054	2552	2985	3444	3953	4391	4870	5330	5862
82	623	1101	1590	2058	2555	2988	3448	3954	4392	4873	5333	5864

Payment of the Redemption Price will be made on or after March 15, 1989, upon presentation and surrender of the Notes called for redemption, together with all coupons appertaining thereto maturing after March 15, 1989, at the principal office in the city indicated of any of the following Paying Agents: S.G. Warburg & Co. Ltd., London; The Sanwa Bank, Limited, London; Banque Internationale a Luxembourg, Luxembourg; Credit Suisse, Zurich.

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OVERSEAS NEWS

Slouching towards symbiosis

THE concept of loyal opposition – apparently incomprehensible to enclosed creeds, such as Communism and Catholicism – is slouching towards Moscow to be born, its hour come round at last.

A rough, shaggy beast it is.

The impassioned demonstrations in Prague, the proliferation of quasi-political groups and associations in Hungary and Slovenia, the first wobbling steps towards official rehabilitation taken by Solidarity in Poland, do not add up to the basis of an alternative to one-party rule in eastern Europe. Not yet.

Eastern Europeans – fumbling for instruments on which to play their contrapuntal accompaniment to the thin, strident, solo themes long played by the different communist parties – are not necessarily playing in the same orchestra.

Why should they be? The communist party monopoly they seek to dismantle never was as monolithic as it seemed to Western eyes. Now it appears less so by the day.

Any pre-emptive manoeuvres in Moscow to counter perceived threats to the "leading role of the party", that most sacred of the elderly herd of Leninist sacred cows, could well prove self-defeating.

The more co-ordinated, repressive or predictable the official discouragement of political diversity (or pluralism as the eastern political scientists, a newly mutant species, call it), then the stronger, more focused and more co-ordinated the opposition is likely to become.

Eastern European dissidents and their supporters in the West had far more basis for co-operation and more impact on the unconverted when they all could unhesitatingly agree that the dead hand of Brezhnevism was intolerable.

Now, however, these groups and networks for the marshalling of opposition, which evolved more or less spontaneously (though covertly, out of necessity) face a more complex environment.

Who knows what *samizdat* is now that, in some parts of eastern Europe, glasnost seems to have removed most of the need for covert distribution of banned literature? Deprived of the oxygen of repression, the *samizdat* pushers could face suffocation.

Margaret van Hattem points the way for governments and oppositions in eastern Europe

The East has yet to grasp that the relationship between government and opposition is essentially symbiotic, in a socialist democracy, every bit as much as in a capitalist one.

That they have not yet understood this is hardly surprising. Within the Conservative Party in Britain, the failure by Mr Francis Pym, once Foreign Secretary, to notice that Mrs Margaret Thatcher, for all her political sophistication, had not grasped this simple point, cut short his political career.

In time, she, as they, may come to recognise "the enemy within" for what it is – a life-saving antibody, an essential component in the political auto-immune system.

The socialists of eastern Europe have already accepted, to varying degrees, the logic of this in relation to economic policy-making, acknowledging that an administration insulated by central planning from all market signals is driving blind.

If and when the signals from the market in political allegiances are allowed free play, President Mikhail Gorbachev and his supporters throughout the eastern bloc may find themselves less frustrated and perplexed by the resistance to their widely-acclaimed reform programmes.

The Soviet elections scheduled for March 26 may reveal, however, more about the shoddy goods on offer in the market for information than about the state of the market in political allegiances.

Initial reports of the selection of candidates, in which many supporters of Mr Gorbachev's reforms appear to have got by with more than a little help from their friends in the upper echelons of the party, indicate that some in the Soviet leader's entourage are more interested in constructing façades flattering to Gorbachev than in learning what lies behind them.

If Mr Gorbachev is to stay the course he has set himself, *he must deal ruthlessly with* the ballot-riggers, flatterers and other purveyors of suspect good news.

It is up to him to create an atmosphere in which sycophancy withers quickly. Otherwise, the unstoppable tide of rising expectations may claim him as its first victim.

Hungary's leaders avoid rift over events of 1956

By Leslie Colitt in Berlin

AN OPEN split among the Hungarian leaders was averted at the weekend.

Discussing in special closed session the highly sensitive issue of whether the 1956 Hungarian upheaval was a popular uprising or a counter-revolution, the Central Committee of the ruling communist party decided that the events of 1956 were a "popular uprising" but that, in the bitter fighting toward the end, they assumed a "counter-revolutionary character."

Mr Imre Pozsgay, the Politburo's most prominent reformer, stood by his controversial remark last month that a "popular uprising" had taken place in 1956. He noted that this was his "personal interpretation" of an analysis by the party's historical commission investigating the past 40 years. He added, however, that he was prepared to accept the Central Committee's view.

A party spokesman noted afterwards that the session had served to consolidate the party and "restore confidence" among its members.

Mr Pozsgay's original remark about 1956, in an interview with Hungarian radio, brought an angry response from the party leader, Mr Karoly Grosz, who said it was not the party's position. He also disclosed that political differences within the Politburo had led to growing tensions in the top echelon.

Besides patching the controversy between Mr Pozsgay and Mr Grosz, the Central Committee's compromise averted a final break with the previous Hungarian Party leader, Mr Janos Kadar, who was forced to resign last May.

Mr Kadar was installed by Moscow after he had called on the Soviet army to put down the Hungarian uprising. The events of 1956 were offically called a counter-revolution.

In his final speech, Mr Grosz said the party recognised that the present one-party system was not "the best way forward".

A multi-party system could avoid political mistakes better than a one-party system, he noted, giving no details except that elections would proceed as scheduled next year.

The Central Committee is to meet again on February 20 to discuss a new draft constitution, which is to provide for the existence of several competing parties.

Polish unrest as talks restart

By Christopher Bobinski in Warsaw

THE Solidarity trade union and the Polish authorities sit down today for a second round of economic consultations, after a series of appeals by Mr Lech Walesa, Solidarity leader, for workers to refrain from strikes during the current six-week *conference*.

At the weekend, a *stoppage* at a steel mill at Ostrowiec Swietokrzyski, in the south, was suspended until mid-May after management had conceded a wage demand, while disputes continued at Piotrkow Trybunalski and the Laziska steelworks in Silesia.

Both sides in the economic *talks, which started last* Wednesday, seem closer to agreement on the need to introduce soon a system of wage increases linked automatically to inflation. The authorities have also greeted with relief a Solidarity suggestion that both sides issue a joint statement on Poland's $38bn foreign debt.

Mr Wladyslaw Baka, party secretary responsible for the economy, leads the official *team. He told the session* last week that Poland was being "throttled" by the debt. Solidarity, though, wants not only an easing of hard-currency debt servicing but also a re-negotiation of Poland's financial obligations to the Soviet Union.

The authorities have already publicly attacked Solidarity's *demand that defence* and internal security spending be cut by 20 per cent, and have termed calls for the elimination of party influence over management appointments a misunderstanding.

Solidarity at the talks is making a strong plea for the autonomy of state sector enterprises to be respected by central government, as well as for a main role in industry for workers' self-management *councils*.

The Solidarity team at the talks is dominated by the movement's more moderate social democratic wing, with the free-market liberals in the delegation toeing the line.

The official team also has its internal differences, with Mr Baka repeatedly reiterating in the meeting last week that the *party supported* reforms based on workers' management councils, while Mr Mieczyslaw Wilczek, Industry Minister, is more in favour of Western-style management.

Slobo the disturbing Serb

Judy Dempsey assesses a combatant Yugoslav

SERBIA'S controversial Communist party chief, Mr Slobodan Milosevic, failed at a recent central committee meeting to secure the immediate removal of his rival, the Yugoslav national party leader, Mr Stipe Suvar.

Even so, opponents of Mr Milosevic's Serbian nationalist line fear that continuing ethnic tensions, underlined this week by strikes in the southern province of Kosovo, will strengthen his power base.

Feared by liberals, who think he is a dangerous demagogue, and despised by party conservatives, who see his drive to get rid of "dead wood" as a threat to their privileges, Mr Milosevic – Slobo as his adoring Serbian supporters call him – seems indifferent to both.

As the national Communist party tears itself apart through internal bickering, the 47-year-old son of an Orthodox priest seems to be forging ahead in consolidating his authority.

He has taken advantage of the old resentment in his native Serbian republic at the efforts of the late President Tito to contain Serbian power by creating in the republic two autonomous provinces. These are prosperous Vojvodina in the north and underdeveloped Kosovo in the south. In the latter ethnic Albanians vastly outnumber Serbs.

Serbian nationalists believe this move by Tito robbed them of part of their cultural heritage.

Mr Milosevic organised what amounted to a bloodless coup in late 1987 when he secured election as party leader. Not *content with that, he moved* against Serbian leaders in Belgrade who did not share his nationalist view and purged the media, including such publications as Polityka and Nin, which were once the flagships of Yugoslav journalism but are now mouthpieces for the Milosevic line.

This is a difficult line to define, although it seems to combine support for perestroika (economic restructuring) with opposition to glasnost in the media.

Croats and Slovenes, who harbour deep and old suspicions of Serbia, say Mr Milosevic wants a greater Serbia which would dominate the Yugoslav federation. They point to the events of the past year, when mobs loyal to Mr Milosevic toppled leaders of Vojvodina, and of the Republic of Montenegro, and prompted a purge in Kosovo.

The Serbian leader's clearest overt goal is to secure greater control over Kosovo and Vojvodina, which have only loose constitutional ties with Serbia proper.

The local party in Kosovo, a region badly rocked by unrest among ethnic Albanians in 1981, is bitterly divided over Mr Milosevic's proposals. Late on Saturday, in the teeth of fierce opposition even from moderate Albanian politicians, the Kosovo party adopted a document to condemn recent demonstrations by the Albanian community.

What most worries liberals throughout the country is the means Mr Milosevic uses to consolidate power.

He has been agitating in recent weeks for the removal of Mr Alexander Bakocevic, Mayor of Belgrade. "Because Bakocevic is popular and good for Belgrade, Milosevic feels threatened," one Serbian journalist *put it*.

Mr Desimir Jevtic, Serbia's Prime Minister, is also expected to be ousted.

In Vojvodina, Mr Milosevic has earmarked Mr Goyko Stojcic, editor-in-chief of Nin, as head of television, thus ensuring a more Serbian flavour for the state media in a province which is home to more than 20 different ethnic communities, including Hungarians and Ukrainians.

Mr Bogdan Trifonovic, head of the Serbian branch of the Socialist Alliance (an umbrella organisation dominated by the Communist Party) is tipped to be Vojvodina's representative in Yugoslavia's collective state presidency.

Mr Milosevic's rise to power has been greatly helped by his wife, Mirijana. As a senior lecturer at Belgrade University, she was instrumental in ousting Mr Slobodan Unkovic as rector, despite the fact that the university staff twice voted against his dismissal.

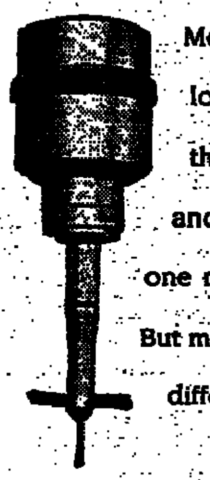
Some Yugoslav observers see Mrs Milosevic as trying to atone for the record of her mother, who was shot as a traitor *after being accused of* revealing the whereabouts of Communist partisan units to Nazi interrogators.

Two factors could curb Mr Milosevic's power. The first is the Yugoslav army. At the recent central committee session, its representatives warned in clear terms that they would not stand idly by as the party continued to lose its grip. The army seems to have issued a tough warning to Mr Milosevic, criticising the use of undemocratic methods.

The second possible curb is the incoming federal government. If Mr Ante Markovic, prime minister-designate, is able to trim triple-digit inflation, stave off Yugoslavia's foreign creditors and halt the plunge in living standards, this could stem the flow of support for Mr Milosevic.

Any improvement in the economy, though, will require time. For now, this remains on the side of Mr Milosevic.

If It Doesn't Measure Up It Goes No Further



COMPUTERISED PINPOINT ACCURACY.

Most manufacturers can build cars that look well made, so it is hardly surprising the differences between a Mercedes-Benz and all the rest may amount to only one millimetre.

But minute differences on paper make enormous differences on the road.

And the reason Mercedes-Benz can search for, and find, this extra precision is simple enough: they use the most sophisticated measuring devices in the world.

In a room wholly isolated from external resonance, a room as clinical as an operating theatre, body shells from the production line of every new model run the gauntlet of highly specialised robots.

Like enormous, elegant aliens, these glide over each body shell searching every contour at 3,500 different points for any misalignment or imperfection no greater than the size of a pinhead.

Only faultless body shells signal that final production can at last begin and, on the assembly line, even more fastidious robots patiently wait. Filled with computer-controlled video cameras that search laser illuminated car bodies for the smallest imperfection, each of those electro-mechanical boffins complete in a week the work it would take two men a year to achieve. And they cannot be deceived. If there is more than 1.0mm variation in a single measurement, the whole shell is rejected.

That is why everything on a Mercedes-Benz fits so precisely. Why panels and trim align exactly. Why doors close with that discreet, terminal 'thunk.' Why these cars are not prone to rattle.

Mercedes-Benz build quality is legendary, a claim that is not wanton exaggeration, but a fact that can be measured.

No Substitute For The Human Touch

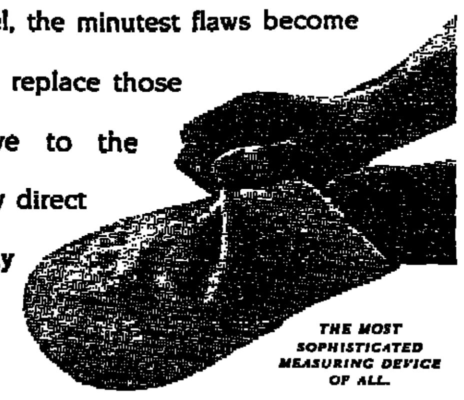
ROBOTS THAT CHECK THE WORK OF OTHER ROBOTS.

Thousands of people at Mercedes-Benz concern themselves solely with 'quality assurance.' Unlike conventional quality control, this procedure is designed to prevent quality problems rather than rectify them. That's why many of the quality assurance team have to be qualified engineers.

Yet a degree in engineering is no more important than the educated touch of a quality inspector's hands on the pristine surface of a raw body shell.

The only piece of equipment each inspector uses is a brushed cotton mitten, worth only a few pence. If he is right-handed, the inspector will use a mitten on his left hand which is less hardened by everyday use and therefore more sensitive than the right.

When his experienced fingers are run over a weld joint or body panel, the minutest flaws become apparent. No robot can replace those practised fingers, alive to the smallest nuance, as they direct the hand-finishing of body shell surface. Or reject it as less than perfect.



THE MOST SOPHISTICATED MEASURING DEVICE OF ALL.

Highest Standards In The Motor Industry

When Mercedes-Benz build a new car it must equal, or exceed, the toughest standards in the business – standards set only by its own predecessors.

The enduring priority is the need, always, to build safer and better cars. Millions of test miles are driven in every conceivable condition, and innumerable crash tests are assessed. Months of 24-hour-a-day laboratory work simulate years of normal wear and tear. Long-term exposure in purpose-built test chambers, using controlled humidity levels, has resulted in anti-corrosion measures tailored precisely to the specific needs of different parts of the car body. Zinc phosphating, chromatic rinsing, electrolytic priming, PVC coating on all welded joints and the underbody, ensure a corrosion resistant armour. In addition, a creeping wax solution is injected into all hollow body sections, while layer upon layer of primer, anti-chip coating and undercoat, are all added before the top coat is applied.

Computers And Robots Are Never Enough

But the real miracle is the ability of Mercedes-Benz to maintain unparalleled build quality as it meets the challenge of designing today's necessarily more complex motor cars.

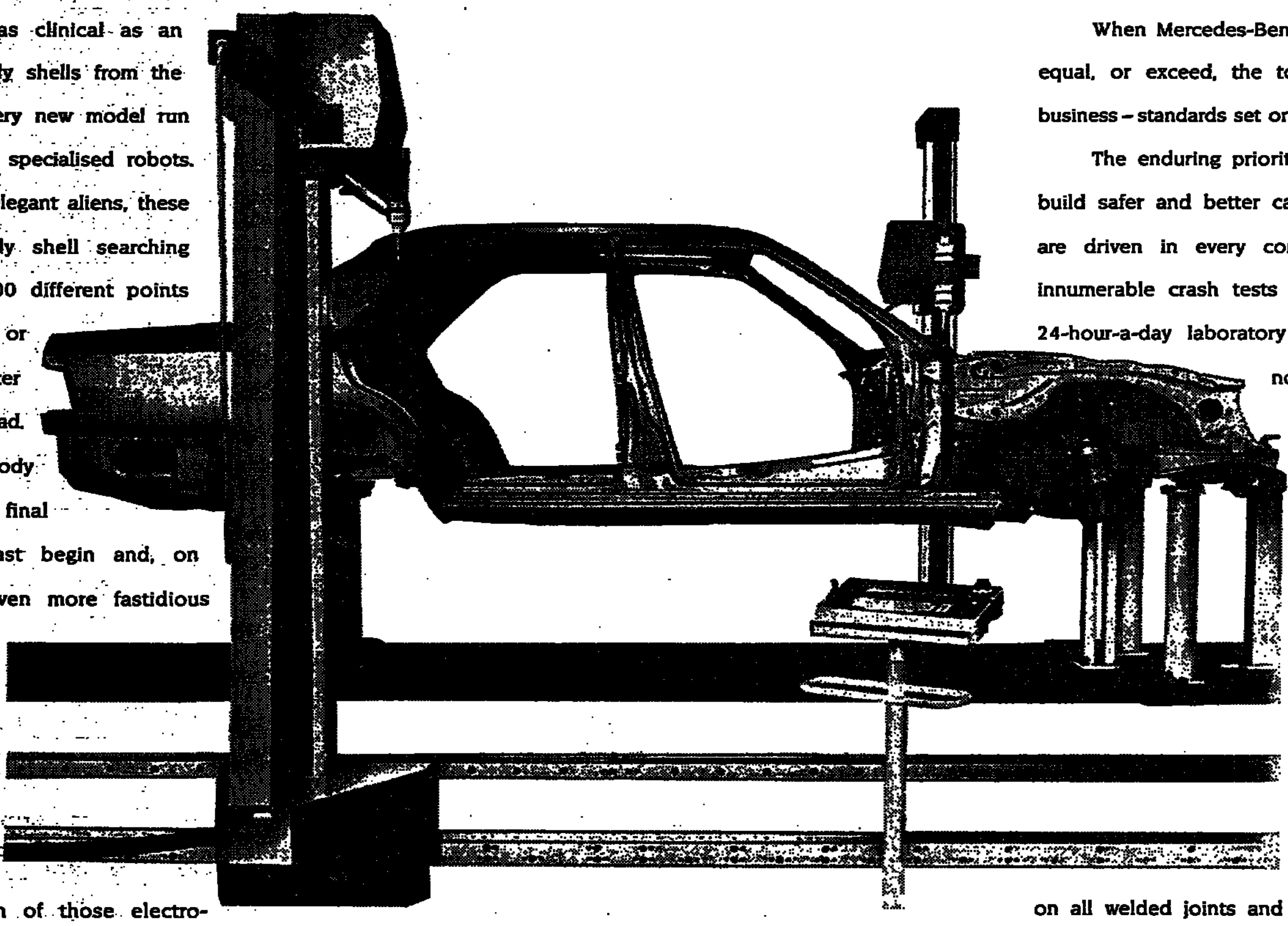
The secret ingredient, if secret it be, is the most complicated piece of equipment of all. The human being. From those educated fingers in cotton gloves to the detailed analysis of the quality assurance engineer.

When Gottlieb Daimler called for 'The best or nothing,' there were no computers or robots, no environmental pressure groups or government safety regulations.

THE 300E A MEASURE OF MERCEDES-BENZ SUCCESS.

But there was a standard demanded and never relinquished. At Mercedes-Benz you'll find as many as three generations of one family working side by side to ensure that every Mercedes-Benz motor car is made as it should be. As it must be. Like no other car in the world.

RJA-160FT



It missed being a Mercedes-Benz by 1·0mm

ENGINEERED LIKE NO OTHER CAR IN THE WORLD.

Japanese ease rules on ship insurance

By Kevin Brown, Transport Correspondent

A small brick in the protective wall around Japanese markets will be removed today when the first foreign-based protection and indemnity (P & I) club receives a licence from the Japanese Ministry of Finance.

The licence will allow the Britannia P & I Club, based in London, to offer insurance cover to the large Japanese flag shipping fleet in direct competition with the indigenous Japan P & I Club.

At the same time, the Japan P & I Club is joining the International Group Pool of P & I Clubs, which operates a collective reinsurance arrangement for most of the world's clubs.

Britannia, which is the world's oldest P & I Club, has had an indirect involvement in the Japanese market for more than 20 years as the reinsurer of the Japan P & I Club.

It has also built up a substantial business in underwriting risks for Japanese-managed ships operating under foreign flags, most of which are owned outside Japan and chartered back to Japanese companies.

Until now, however, only the Japan P & I Club has held a licence to write business for the Japanese flagged fleet of more than 20m gross registered tonnes.

Mr John Riley, a partner in Tindall Riley, Britannia's London managers, said the club was following in the footsteps of more than 40 foreign-based non-life insurance companies awarded licences to operate in Japan.

"It is difficult to know what is happening behind the scenes, but I think this is all part and parcel of the Japanese internationalisation of their markets," he said.

"I think that if we had applied for a licence a few years ago we might have come up against a closed door, but in the current climate they have been more receptive."

P & I clubs are mutual organisations peculiar to shipping. Most offer insurance against shipowners' liability for personal injury and damage to property, oil pollution, and wreck removals. Some, not including Britannia, offer insurance against the cost of delays caused by strikes.

SHIPPING REPORT

Opec output cuts continue to hit tanker markets

By Kevin Brown

PRODUCTION cuts implemented by the Organisation of Petroleum Exporting Countries continued to bite in the tanker market last week. Brokers said little business was done in the Gulf, the main loading area.

Most reported fixtures were for eastern discharge. Rates for 240,000 tons to Japan, for example, wavered between Worldscale 37.5 and Worldscale 42.5. Rates for discharge in Europe remained steady at around Worldscale 35 for cargoes of up to 300,000 tons.

More demand existed for ships of around 80,000 dw tons, and US charterers were reported to have paid about Worldscale 125 for discharge in Australia – an increase of around 10 points on the week.

Brokers said owners were hoping for an increase in Opec production to well above the current forecast of around 20m barrels a day, which would encourage a return to the higher freight levels.

Brokers noted there was sufficient very large crude carrier and ultra-large crude carrier tonnage to cope with expected production for the next few years.

E A Gibson, the London shipbrokers, said about 45 ships totalling 13m tons dwt were awaiting cargoes in the Gulf.

S Korea to boost investment in Europe

By Maggie Ford in Seoul

SOUTH Korea is to launch a major drive to increase investment in Europe with a target of 50 manufacturing projects this year, according to Dr Han Seung Soo, Seoul's Minister for Trade and Industry.

The investment drive will be accompanied by efforts to reduce South Korea's trade surplus with the EC by $500m to $1.5bn (£833m) this year. It is intended to do this mainly by opening markets to EC imports and diversifying sources.

On the eve of his visit to London, Dr Han said that the move signalled a switch in trade policy which had previously been focused on the US and Japan.

Although information about Europe was scarce in South Korea, the prospect of an integrated market in 1992 had sparked growing awareness.

Companies in South Korea already have around 10 projects under way in Europe, with three in Britain.

Dr Han said that initially companies were likely to set up factories in areas involving high technology and electronics along with producing motor and other components. If the country's current account surplus continues to grow, portfolio investment would be considered, he added.

South Korea has been hit by a wave of anti-dumping suits from Brussels in the past year and is facing action under the General Agreement on Tariffs and Trade over agricultural imports.

The Trade Minister said, however, that Seoul was moving quickly to open its markets. He pointed out that the rate of growth in imports from the EC and the US was much higher than that of exports.

He hoped that a South Korean proposal protecting intellectual property rights put forward last year would be acceptable to the EC, thus removing one of the chief irritations between the two sides.

The large trade surplus with the UK is likely to be reduced by the liberalisation of Scotch whisky imports from July, the minister added, and efforts are being made to end counterfeiting of trademarks.

Dr Han emphasised South Korea's need to promote orderly marketing, to diversify its trade, and to stimulate its domestic economy by encouraging imports.

South Korea planned to become an advanced and responsible free trader, he went on, but its main worry was that other countries might be heading in the opposite direction.

● A bill to legalise trade between North and South Korea was approved by the Cabinet at the weekend and will be presented to the National Assembly today.

The bill will override other laws which currently ban contact between North and South Korea on the grounds of national security. The new law will regulate travel across the border. It will also boost control of contacts and trade ministries.

Imports from North Korea will be regarded as internal trade, and will be regarded as duty free.

Bombers strike at Sri Lanka rallies

SUSPECTED left-wing rebels tossed bombs at rallies of Sri Lanka's ruling party, wounding at least 20 people, as campaigning for a parliamentary general election officially ended yesterday, police said, Reuter reports from Colombo.

On Saturday night, Tamil terrorists hacked to death 37 Sinhalese at a village in the north-east of the country.

Police said 15 people were injured when two bombs were flung at a United National Party rally at Piliyandala, 10 miles south of Colombo. Five more were injured in bomb attacks on two small meetings of the party at Angoda, another Colombo suburb.

Sri Lankans will vote on Wednesday to choose the members of the 225-seat parliament.

Police said the Liberation Tigers of Tamil Eelam, who are fighting for an independent homeland, dragged 37 Sinhalese from Dutuwewa village in the north-east on Saturday and hacked them to death with swords and knives. They also opened fire and set about 18 houses ablaze.

The Tigers denied involvement in the Dutuwewa attack, saying they suspected it was the work of an Indian-backed rebel group called the Three Stars.

The Tigers have rejected an Indo-Sri Lankan pact to end the separatist campaign and are battling against the 45,000 Indian troops sent to crush the insurgency.

In the approach to the poll this week, 300 political activists and 13 candidates have been killed in violence blamed by the authorities on the left-wing People's Liberation Front.

New York nuclear plant accord

By Roderick Oram in New York

PLANS to close the controversial Shoreham nuclear power station near New York City were revived over the weekend by a favourable ruling and mediation proposal from a federal court.

The plant's owner, Long Island Lighting Company (Lilco), and its opponents responded favourably to the proposed settlement, which avoids the political hurdles that killed earlier plans. If they reach final agreement, Shoreham would be the first nuclear power station in the US to be dismantled without having been used.

The impasse over the 20-year-old plant was broken when Judge Jack Weinstein threw out a lower-court conviction of Lilco on racketeering charges. The utility's opponents alleged it had lied to state regulators so as to win higher electricity charges and thus help finance the $5.4bn plant. Rebates to its customers arising from the conviction could have cost Lilco up to $1bn and hastened its bankruptcy.

Judge Weinstein's ruling added fuel to the controversy about the expanding use of the Racketeer-Influenced and Corrupt Organisations (Rico) law. He said it had been misapplied in the Lilco case, which should have been heard by the state's utility regulatory commission.

He warned of "the extreme dangers of over-reaching" when prosecutors try to apply the law to civil cases. Debate over Rico is particularly heated on Wall Street where Mr Rudolph Giuliani, US Attorney for New York, has used the threat of Rico charges to win settlements from investment bankers.

Drexel Burnham Lambert felt he had pressed it into agreeing to pay $650m in penalties and plead guilty to six minor charges arising from a two-year investigation of its business practices.

Rather than pursue the Lilco case in other courts, Shoreham's opponents said they were interested in accepting the proposals. As under earlier plans, New York State would buy the plant for a nominal sum and dismantle it. Lilco would seek electricity price increases totalling some 60 per cent over the next 10 years. The utility offered in the latest proposals, however, to cut the increases by about $400m.

The new plan would need the approval of only Lilco, the government of Suffolk County where Shoreham stands and Governor Mario Cuomo of New York state. Earlier plans died in December when the New York state legislature balked at Mr Cuomo's demand that it approve the settlement.

US drops demand to veto Inter-American Bank loans

By Stephen Fidler in Washington

THE US has dropped its demand for a right of veto over loans made by the Inter-American Development Bank, clearing the way for a possible agreement by the end of this month on a capital increase for the institution.

The first talks since 1987 on the proposed increase took place last month, and a committee of the governing board meets on February 24 in an attempt to complete negotiations before the bank's annual meeting in Amersterdam in late March.

Mr Enrique Iglesias, the Bank's president, said he was hopeful of a successful outcome of the talks which would clear the way for an increase of $20bn-$25bn in callable capital over the years 1990 to 1993.

The US, which controls 34.5 per cent of the capital, has been critical of the Bank, which was set up to channel development funds to Latin American countries, describing it as overstaffed and poorly managed. Agreement over a capital increase has been held up by its demand for veto power over loans for holders of 40 per cent of the Bank's shares. This was unacceptable to the Latin American shareholders, which make up the majority.

The likely compromise would give shareholders the right to delay but not cancel the loans. There remain differences over the period of the delay and the proportion of shares necessary to vote one.

The increase would allow the Bank to treble its lending from its 1988 level within two to three years. Loans from the bank fell in 1988 to around half of the the 1984 peak of $3.5bn.

Hong Kong prime lending rate raised to 10½%

By John Elliott in Hong Kong

HONG KONG'S prime lending rate goes up by half a percentage point to 10.5 per cent this morning, its first increase since December 5 when it rose half a point to 10 per cent.

The decision was taken on Saturday by the colony's Association of Banks following US banks' decision on Friday to raise their prime rate by half a percentage point to 11 per cent.

Mr Paul Selway Swift, chairman of the Association, said that an increase had been considered for three weeks because interbank rates were high. But in order to avoid overvaluing the Hong Kong dollar, no move was made till US prime went to 11 per cent.

The Hong Kong dollar is pegged to the US dollar at 7.80:1, under a five-year-old government policy which has become controversial locally in the past few months. There is concern that the link is leading to unnecessarily high interest rates and is boosting inflation which is edging up towards 10 per cent.

However, today's prime rate increase is not expected to have any significant impact on the colony's booming property and stock markets.

Property values have been hitting record levels and the stock market has risen by about 20 per cent so far this year with the local Hang Seng index reaching a post-crash peak of 3209.96 last Friday.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980=100)

	Jan '89	Dec '88	Nov '88	Jan '88	% change over previous year
W. Germany	124.6	123.3	123.0	121.5	+2.6
Italy	229.1	227.4	226.7	216.9	+5.6
Belgium	148.1	147.5	147.0	144.6	+2.4
	Dec '88	Nov '88	Oct '88	Dec '87	% change over previous year
UK	165.0	164.6	163.8	154.5	+6.8
USA	146.3	145.8	145.5	140.2	+4.4
Netherlands	124.4	124.5	124.4	123.2	+1.0
France	174.0	173.7	173.5	168.8	+3.1
Japan	116.7	116.6	117.0	115.1	+1.4

Source: (except US) Eurostat

Retail sales fall to lowest level in three years

By Ralph Atkins, Economics Staff

RETAIL SALES growth fell sharply in January to the lowest level for nearly three years and retailers are gloomy about sales this month, according to a survey published today.

The results of the Confederation of British Industry/Financial Times distributive trades survey point to a big slowdown in consumer spending growth after last year's steep rise in interest rates on home loans.

It shows that year-on-year growth in sales volumes last month was below retailers' expectations and lower than in any month since April 1986.

The latest survey shows retailers are as gloomy about sales in February as they were for January, when expectations were at the lowest since the survey began in 1983.

Growth in orders placed by retailers also slowed in January to the lowest level since the survey began in 1983.

Among wholesalers there was a slight slowdown in sales last month and big drop in the growth of orders placed with suppliers.

Motor traders reported strong sales growth in January with volumes above expectations. A steep deceleration is expected for February, however.

The survey is the first of a series of economic indicators published this week including Department of Trade and Industry (DTI) figures for retail sales volumes in January to be released later today.

Other indicators include inflation figures, to be released on Friday, which are widely expected to show the annual rate exceeding 7 per cent, and average earnings and unemployment statistics on Thursday.

It will be the last time most of these figures are published before the budget on March 14 and they are likely to be scrutinised carefully by analysts and the Government for signs of a slowdown in inflationary pressures.

The CBI/FT survey shows that of the 299 retailers replying, 51 per cent said sales volumes in January were higher than the corresponding month a year before and 27 per cent said they were lower.

In February, 47 per cent of the retailers expect a rise compared with the corresponding month a year before and 21 per cent expect a fall.

Mr Nigel Whittaker, chairman of the survey panel, said: "This suggests that the higher mortgage rates have had a major impact on consumers' spending power and expectations of further sales growth in February, not surprisingly, remain subdued."

The survey results and DTI figures have often conflicted in recent months.

In December the survey pointed to weak growth while revised DTI figures, which were published last week, showed a rise of 0.3 per cent after adjustment for normal seasonal variations.

Sales in recent months have been distorted by problems in adjusting for the usual Christmas peak and the effects of unseasonally mild weather.

However, the latest results are likely to confirm the belief of most London analysts that consumer demand is slowing and could revive speculation of an early cut in interest rates.

Barclaycard looks at plan to introduce charges

By Richard Waters

BARCLAYCARD yesterday became the first major credit card operator in Britain to announce it was considering introducing charges.

Any move by Barclaycard, the largest card issuer in Britain, would almost certainly lead to similar moves by rivals.

American Express became the first to charge a flat fee for its credit cards in the UK when it launched its Optima card, which has an annual fee of £10, earlier this month.

Charges for credit cards are standard in many other countries. In the US, the introduction of charges led to a sharp fall in the number of cards in use as customers reduced the number of cards they held.

Mr Peter Ellwood, Barclaycard chief executive, said yesterday on BBC television: "I think it is quite possible the pricing of credit cards in the UK may well have to change, and this may indeed mean that some form of charge may have to be introduced within the next year or so."

Distortions in the present charging structure of credit cards are likely to prompt this move, he said.

About 46 per cent of Barclaycard customers, who pay off their bills each month, are charged nothing for their cards.

For these people, a credit card "is probably the most under-priced product in the British financial services market at the present time," said Mr Ellwood.

They receive up to two months' interest-free credit, do not pay for transactions and qualify for Barclaycard's "Profile" incentive scheme

Investors book a tasty British breakfast

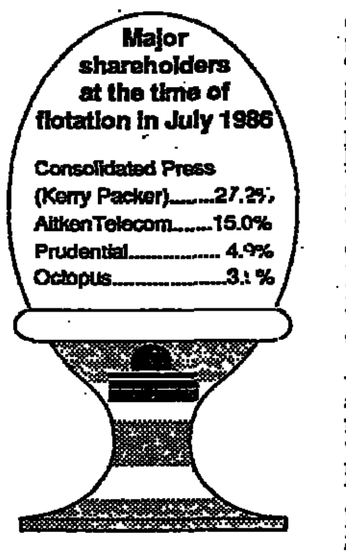
David Waller looks at why TV-am has become an attractive prospect

WHAT DO Mr Kerry Packer, the Saudi royal family, Mr Alan Bond, Mr George Oros, the grandchildren of Lord Beaverbrook and Mr George Walker, the boxer-turned-entrepreneur have in common?

The answer is TV-am, the breakfast television company which broadcast its first programme in February 1983, very nearly went bust shortly afterwards, and subsequently fought its way through a major industrial dispute to become a highly-profitable operation.

All the above have had, or still have, substantial stakes in a TV company which, 2½ years after its flotation on the Unlisted Securities Market, has a market capitalisation of £118m and is likely to make a pre-tax profit of £19m in 1988-89.

Mr Walker joined the club only on Wednesday this week, when the Brent Walker group emerged as TV-am's largest shareholder. This position has at various times been occupied by United Newspapers, the Beaverbrook heirs, Messrs Timothy and Jonathan Aitken, and the Antipodean entrepreneurs, Messrs Packer and Bond.

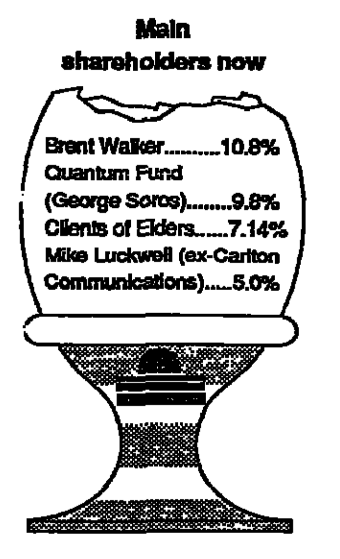


The whirligig of investment interest would not be out of the ordinary if TV-am could be taken over like any other company. But it can't. The Independent Broadcasting Authority forbids absolutely any change of ownership of any company with an IBA franchise during the life of that franchise. TV-am's expires on January 31 1991.

What is more, no foreign company is allowed to buy more than than 1 per cent of TV-am's shares. Mr George Soros, the US investor who holds 9.8 per cent of the company via his Quantum Fund, has been disenfranchised for having too big a stake. The Aitken cousins had to resign from the board a year ago when it emerged that the company through which they held their 15 per cent stake was controlled by an Arab investment company

As if the IBA's proscriptions were not enough, there is another anti-takeover mechanism, this time embedded within the company's Memoranda and Articles of Association. In post-flotation days, no one new shareholder can own more than 10 per cent of TV-am's shares. Mr Walker will soon be asked to cut his stake back to that level.

Far from the financial catastrophe which threatened to engulf the company in the early days, TV-am is now a picture of financial health. In September last year, it reported a 56 per cent surge in interim profits and a 50 per cent dividend hike. Pre-tax profits should rise from £13.6m in 1988 to £19m in 1989 and £22.5m in 1990. The reasons for the rosy outlook include:



- TV-am's unique franchise, both in terms of time and geographical area covered. Its programmes are beamed nationwide from 6.00am to 9.25am. This is naturally attractive to advertisers who cannot get nationwide coverage anywhere else.
- The viewer profile, which boosts the attractions to the advertisers. Those who watch TV-am are younger than those who watch independent TV at other times. They are normally prosperous housewives who go out shopping not long after the programme has finished.
- Operating costs have been slashed as a result of managing director Mr Bruce Gyngell's determination to break restrictive practices.
- The company is well placed to benefit from the new era of broadcasting in the UK, ushered in by the Government's recent White Paper. There will, for example, be a much expanded market for TV-am's regional and international news coverage.

According to Ms Bronwen Maddox of Kleinwort Benson, TV-am's stockbrokers, the company is now nothing short of a "cash-machine." The present value of the next three year's post-tax profits could amount to £65m. Add that to an estimated £25m cash sitting in the balance sheet, and there is not much premium in the present market capitalisation of £118m.

Hence, there is limited downside at present levels and the shares make an attractive investment – even if TV-am cannot be taken over.

Rates rises 'hit holiday market'

By Philip Rawstorne

THOMSON Holidays, the leading UK package holiday company, forecast at the weekend that some 2.5m holidays – more than a fifth of the 11m on offer from British companies this summer – are unlikely to be sold.

Thomson is cutting 600,000 summer holidays because of lack of demand for which it blames the impact of high interest and mortgage rates on family budgets.

Mr Charles Newbold, Thomson's managing director, said bookings had dropped by 10 per cent compared with the company's expectations of a 10 per cent increase.

Package holiday bookings to Mediterranean resorts had been worst hit, he said.

"The actions (open to us) are either to reduce the number of holidays we have available or to get into a discounting war and last minute discounts which don't do anyone any good."

Some holiday companies were expected to follow Thomson's lead or cut prices, but Global Holidays, which specialises in self-catering holidays, accused Thomson of "scare tactics" to stampede clients into early bookings.

Mr Adrian Howell, Global's commercial director, admitted there had been a drop in demand but said he had no intention of making cancellations.

BR beats computer virus

By Alan Cane

BRITISH RAIL, one of the UK's largest personal computer users, has survived infection by a computer virus without serious disruption to the organisation.

The damage could have been devastating, computer experts say, if the virus had been a more virulent strain or BR's reaction less prompt.

The company was attacked late last year but managed to isolate and destroy the virus within a few days. It has now been clear of infection since Christmas, suggesting that measures it took were successful in eradicating the virus.

BR intends to distribute the special software it created to defeat the virus to other companies which fear attacks.

Computer viruses are often destructive programs written by unscrupulous individuals which are able to replicate themselves within computers, much as biological viruses replicate within living cells.

Lawson urged to widen tax plan

By Philip Stephens, Political Editor

THE TREASURY is under pressure to broaden the scope of tax relief for private health insurance taken out by the elderly.

The Government announced tax relief for health insurance in last month's policy document on the National Health Service.

The health insurance industry is advocating several schemes in negotiations with the Inland Revenue.

The schemes have the backing of experts who advised Mrs Margaret Thatcher, the Prime Minister, during the health review.

If the proposals are accepted, they would eventually raise the cost of the relief significantly above the £30m to £40m a year which the Treasury indicated two weeks ago.

Mr John Major, Chief Secretary to the Treasury, rejected Labour requests on Thursday for the Government's latest cost estimate.

Mrs Thatcher, who overruled Treasury and Health Department objections to the inclusion of tax relief for the elderly in the white paper, is said to be taking keen interest in the detailed implementation of the scheme.

When the paper was published, Mr Nigel Lawson, the Chancellor, said the relief would be available either to an individual aged 60 who paid his or her premiums, or to someone else who paid on the patient's behalf.

Legislation to introduce the relief will be included in this year's Finance Bill. The relief would come through deduction at source.

The industry, meanwhile, is seeking clarification that relief will be available to individuals with unused tax allowances as well as those with taxable incomes. At this stage the Treasury is thought to be keen to frame the legislation in a restrictive way.

Confident youth casts an eye on Westminster

Philip Stephens on the fight for a Tory constituency

WILLIAM HAGUE is a confident young man: confident that on February 23 the electors of Richmond, North Yorkshire, will send him to Westminster to join the select band of MPs who are still in their twenties.

But the by-election result in one of the safest Conservative seats in the country is not quite yet a foregone conclusion. There are plenty of grumbles among the voters, who in 1987 returned Mr Leon Brittan with a majority of 19,500 over the second-placed Alliance.

A sharp fall in farm incomes has not gone down well in a area in which perhaps a quarter of the electorate are directly or indirectly dependent on agriculture. High interest rates, water privatisation and reform of the National Health Service are further sources of unease, while Sir Leon's departure for Brussels has not thrilled Tory voters.

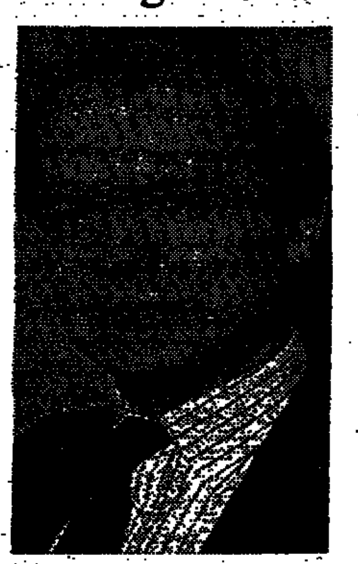
So, gauging the mood of such a vast and diverse seat, where electors have a well-deserved reputation for independence and discretion, is a distinctly inexact science.

The backbone is firmly rural. Richmond embraces both the Yorkshire dales and the gently rolling countryside around Thirsk, immortalised by the author, James Herriot.

The candidates, however, must also woo voters in the urban centres of Northallerton, Richmond and Thirsk, in the Teeside commuter belt around Stokesley and at the vast army and airforce bases of Catterick and Leeming.

It is in those areas that Mrs Barbara Pearce, the energetic Social and Liberal Democrat candidate, is seeking a springboard for the biggest by-election upset since the Alliance wrested neighbouring Ryedale from the Conservatives in 1986.

A week into the campaign, her task looks impossible. Mr Hague may see his majority slashed, but with the opposition split between the SLD, Dr David Owen's SDP, and Labour, he does not look like losing.


William Hague: 27 going on 40

Mr Hague, a management consultant, first propelled himself to prominence at the tender age of 16 when he delivered a rousing speech to the Tory party conference. Now he is campaigning with the experience of a man who spent his late teens on a lecture tour of the nation's rotary clubs.

With prematurely thinning blond hair and a liking for checked sports jackets and cavalry twill trousers, one commentator remarked this week that he is 27 going on 40.

He has learned to tailor the Thatcherite enthusiasms of his youth to the distinctly "one-nation" Toryism of the local party activists. Like Mrs Margaret Thatcher, the Prime Minister, Mr Hague still favours hanging murderers, but his views on many other issues are liberally sprinkled with pragmatism.

Thus, he could happily tell the grumbling farmers who turned out this week at the village hall in Sessay that: "My view is that there will be support for farmers for a very long time to come." He is simply "not prepared to throw agriculture and farmers to the wolves in support of any economic philosophy."

He has also been undogmatic about the NHS, supporting the recent policy document, but adding that proposals to limit spending by family doctors needs clarification.

The Conservative campaign looks smooth and professional. Mr Hague has an adroit and self-deprecating style which should help ensure that the grumbles do not turn into a full-scale revolt by Conservative supporters.

That is what Mrs Pearce, a 47-year-old careers specialist at Leeds University, needs if the SLD is to have a hope of winning the seat.

With his party still demoralised after the split with Dr Owen, Mr Paddy Ashdown, the SLD leader, desperately needs to do well to restore the party's credibility as a serious challenger to both Labour and the Government.

Mrs Pearce, backed by the large and professional teams of helpers which the SLD musters for by-elections, is waging a high-profile campaign designed to quickly establish the SLD as the principal challenger

The problem, as at last December's Epping by-election, is that the SLD is attempting to overturn not only a huge Conservative majority but is also fighting off a challenge from the rival SDP..

Mr Ashdown rejected suggestions for a pact covering the two by-elections, and Mr Mike Potter, a 42-year-old farmer and local councillor from Bedale, has responded with a strong start to the SDP campaign.

Mr Owen, campaigning alongside Mr Potter yesterday, was careful to avoid extravagant claims about his chances, but at present the SDP looks likely to attract enough votes to wreck the SLD's chances.

Labour, meanwhile, is displaying all the seriousness with which it is treating by-elections since its defeat at Govan last November. Though it has no chance of winning – it came a poor third in 1987 – it is determined to deliver a credible performance.

UK NEWS

Union tells BBC of legal threat to subscription plan

By John Gapper, Labour Correspondent

A PLANNED subscription service of archive television material faces a serious legal obstacle, the actors' union Equity has told the BBC.

Mr Michael Checkland, BBC director general, has said he is optimistic that a deal will be struck with Equity and the Musicians' Union to allow the use of archive material.

However, Equity believes it cannot give such blanket consent.

According to the union's legal advice, standard BBC contracts require the consent of individual actors for any repeat showings of programmes, beyond those agreed in the contracts when the programmes were made.

The problem could undermine the archive service, which forms part of the BBC's plans to earn more of its income from subscription, under the new broadcasting framework set out in the Government's recent white paper.

It threatens to repeat the difficulties of Super Channel, the satellite company formerly part-owned by 14 independent television companies. Individual actors prevented the company from using some archive material.

There is growing pressure on Equity's existing deals with the BBC and ITV companies. The television companies are pressing for amendments to make it easier to sell material to overseas markets and satellite stations.

Although ITV contracts require individual consents for repeat uses of programmes beyond those originally agreed, BBC contracts are said to be ambiguous.

The BBC's legal advice is that it would not require individual consents.

Equity and the BBC are to hold a joint legal meeting to try to resolve the problem. Mr Peter Plouviez, Equity general secretary, said he wanted to negotiate a deal but believed he could not legally do so.

Recently, the BBC was prevented from reaching a deal to screen the Falklands drama Tumbledown in cinemas, because three actors refused to allow it. Individual consents would present similar problems to a subscription service.

The BBC, which is already running a night-time subscription service for junior doctors, is trying to produce plans for a range of subscription services by 1991.

● Mr Plouviez said he believed Equity's agreements with the BBC and the ITV companies had been cleared by the Monopolies and Mergers Commission of containing restrictive practices against the public interest.

Mr Plouviez said that although the commission had apparently found Equity's deals to be restrictive under Section 79 of the 1973 Fair Trading Act, it did not consider them against the public interest.

The BBC has amended agreements with its staff unions after being told they contained restrictive practices, and the ITV companies believe their deals have been largely cleared.

The Government is believed to have received the commission's report, and unions are likely to press for its publication.

David Brown ends talks

By Nick Garnett

DAVID BROWN, the Huddersfield-based gear maker, said yesterday that it had terminated talks with Sulzer of Switzerland over the possible sale of David Brown's pump manufacturing business.

The company said it had been approached last year by the Swiss pump maker. David Brown also had discussions with Weir, the Glasgow-based pump manufacturer.

David Brown said yesterday that it had decided to retain and expand the pump business which had sales last year of about £8.5m.

Sulzer's cash offer failed to take account of the value of the business, it added.

The West Yorkshire company has made pumps using a licence from Bingham, the US pump maker which was recently acquired by Sulzer.

The manufacturing licence has now ceased but David Brown said this would increase its sales opportunities.

Baker will issue code in 'war' on opting out

By Michael Cassell, Political Correspondent

MR KENNETH BAKER, the Education Secretary, is to issue guidelines intended to end what he described yesterday as the "unscrupulous war of misrepresentation and intimidation" being conducted by some Labour-controlled education authorities who want to prevent schools opting out of their control.

Mr Baker told the Young Conservatives' annual conference in Southport that a code of conduct for education authorities is to be issued today.

He said the move was intended to halt blatant campaigns being waged by some authorities to stop schools from converting themselves into independent, grant-maintained bodies.

The guidelines are expected to be sent to chief education officers and will warn that education authorities will have to cover the legal costs of those parents acting in good faith who are taken to court during any dispute over opting out.

The move is intended to prevent further cases arising such as the impending court battle between Birmingham Education Authority and Small Heath school in the city.

Mr Baker referred to the case as one in which a Labour authority had threatened governors with legal action backed by the unlimited public funds which it had at its command.

A second provision in the guidelines will warn that the Education Department will order a quick re-run of any opt- out ballot where Mr Baker thinks there is evidence of malpractice.

At present, the Education Secretary must wait a year before he can order another ballot.

However, it is thought this time limit could be cut to one month.

About six points are expected to be covered in the departmental guidelines.

They will not be backed by the force of law but Mr Baker made clear that he expects them to be followed.

He said: "We would expect that when a code of conduct is issued it would be followed. That is normal in the field of education."

Electronic stock market takes a leap nearer

Nick Bunker examines competing systems for dealing at the touch of a keyboard

AFTER nearly 18 months of delay and spending at least £4m, the Stock Exchange's long-awaited system for automatic small-order share-dealing goes live officially today.

Mr George Hayter, the Exchange's information services director, says it marks a leap forward towards creating an electronic stock market which he likens to "a seamless web" of computerised services from the client's initial order through to settlement.

Such is the futuristic rhetoric surrounding Saef, the Exchange's automated execution facility. Conceived to make it easier and possibly cheaper for brokers to handle small orders, especially private client business, Saef allows stockbrokers to buy or sell shares from market makers at the touch of a keyboard.

Initially, it will handle only orders of up to 1,000 shares, a size accounting for about 40 per cent of the market's transactions, but the aim is to expand this to an upper limit of 5,000.

But the reality is that Saef will face a tough fight with competing systems set up by two of the Exchange's member firms, Kleinwort Benson Securities and Barclays de Zoete Wedd.

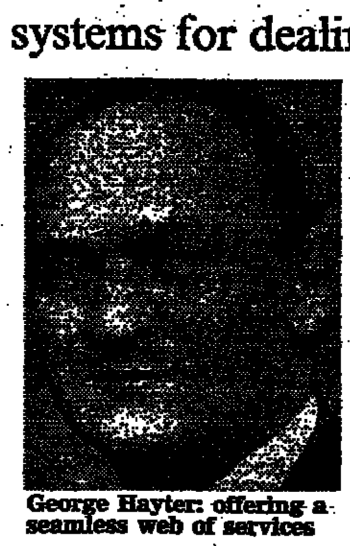
Both firms are already processing 5,000 or more orders each week on rival automated execution systems, Kleinwort's Best, introduced two years ago, and BZW's Trade, which started last July. Both guarantee to meet the best price available in the market.

The Exchange has climbed down from its earlier hostility to competing facilities. It has reached an agreement in principle to allow BZW to develop a system for brokers to access Saef and Trade from a single terminal. But there are still sharply differing views about how useful Saef will really be, and whether the Exchange should be providing it at all.

Saef is simple to use. The only visible equipment in the broker's office is an IBM-compatible personal computer, linked to market makers and the Exchange's central system via an integrated data network.

Using it takes only seconds. The broker-dealer taps in the order, and Saef ferrets through the Exchange's Seaq screen-based price quotation system to find the most competitive market maker. If several are quoting the best price, Saef automatically executes the order in rotation among them, then instantaneously produces an on-screen confirmation, plus a hard copy printout.

To prevent the market maker being swamped with orders if his price moves way



George Hayter: offering a seamless web of services

out of line with competitors, the market maker sets an upper threshold of the number of shares it will trade through Saef. Once the order is complete, Saef automatically transmits the details directly to the Exchange's overnight checking process and to the Talisman settlement system.

Nobody, however, expects a drastic overnight transformation of all small-order executions. It is compulsory for market makers to join Saef, but only 23 broker-dealers have so far done so, with another 30 actively contemplating it. And to start with, the system will encompass only 155 stocks, although the Exchange aims to widen the range.

One small broker which took part in a month of test trials, J.M. Finn, used Saef for only 30 orders. Its dealing partner, Mr Chris Tansley, though a supporter of the system, believes it could be two or three years before he sees the full benefits.

Unless business volumes are unusually high, he says his broker-dealers can often get better prices than those shown on Seaq by negotiating with the market makers. "We're finding we can still beat Saef over the telephone," he says.

Even if high turnover boosts its popularity, Saef has little chance of ousting Best and Trade, which can deal in much larger orders. Kleinwort reckons stockbrokers will want to have at least two of the systems, partly as insurance in case one of them blows.

More fundamentally, differences between Saef, Best and Trade underline what some see as Saef's limitations. Best and Trade are both cheaper, since Kleinwort and BZW supply the system free of charge, and both offer at present a far wider range of stocks, including gilts via Trade. But the key difference is that Saef is a very basic service — what one critic calls "a lowest common denominator system" — with a far narrower range of functions.

Using Best, the broker-dealer can access additional services, including a 90-day history showing all deals he has transacted with Kleinwort for a given client. Trade, too, has the advantage of an interface between the broker-dealer and BZW's database. BZW is thinking about the logical step of publishing its research over the system.

A further objection to Saef comes from senior executives in large securities houses who question the whole idea of the Exchange providing electronic services which member firms can create for each other. There are doubts about whether a system as basic as Saef will actually bring down transaction costs substantially.

According to the chief executive of one large firm, an ardent supporter of Best, automated execution systems can cut costs, but the main rationale for them is that they enhance the quality of service. "These systems will fractionally reduce dealing costs, but settlement costs in London are still excessive," he argues.

To get to grips fully with that problem, the market will have to wait for whatever version of the equally long-awaited Taurus system for doing away with paper certificates emerges from the deliberations of a special securities industry committee chaired by Mr Patrick Mitford-Slade of Cazenove.

Gould attacks DTI 'failures' over City

By Michael Cassell

THE Labour Party intends to campaign about what it claims is the Department of Trade and Industry's record of "delay, incompetence and ineffectiveness" in policing the City of London.

Mr Bryan Gould, the party's trade and industry spokesman, yesterday signalled the start of a concerted attack on the DTI for failing to give a clear and effective approach to City regulation.

He said that the "sleaze factor" would continue to grow without such an approach.

Speaking in his Dagenham constituency, Mr Gould claimed there was overwhelming evidence that the DTI had failed in its attempts to monitor the City's activities.

He said the department had not only proved slack and inefficient but that there was now the "clearest possible signal to miscreants in the City that they have nothing to fear from the present regulation arrangements."

Bryan Gould: fears growth of City's "sleaze factor"

He added: "This is bad news both for the City and for the public interest.

"The City cannot prosper if investors have no confidence that they are properly protected, and the public will become increasingly cynical if they see that the rules meant to govern City behaviour are simply not enforced."

Mr Gould cited a "catalogue of failure" by the DTI and warned that Labour intended to produce evidence over the next few weeks to support its case.

He said the DTI had already acknowledged that investigations under the Companies Act were taking an average of two years and three months.

Mr Gould also said that 19 inquiries, some of them going back to 1982, were still outstanding.

He was particularly critical of Lord Young's handling of a series of City takeovers and of his alleged inconsistency over competition policy, which was now in "total confusion."

Lord Young, Mr Gould claimed, had shown a blatant disregard for the DTI inquiry into insider dealing when giving the go-ahead for Minorco's bid for Consolidated Gold Fields.

He had also offered a misleading interpretation of the Le Quesne report into the collapse of Barlow Clowes.

Mr Gould also said that Lord Young's refusal to publish the report into the takeover of House of Fraser confirmed his "relaxed attitude."

He added that the report apparently revealed evidence of offences serious enough to be referred to the Serious Fraud Office but not so serious, in Lord Young's view, as to warrant reconsideration of the takeover.

Mr Gould concluded: "The total effect of these deficiencies is to produce an image of a department which has neither the will nor the ability to do its job effectively.

"Unless Lord Young comes up with a firm and clear approach to City regulation that allows everyone to know what the rules are and that they will be rigorously enforced, the sleaze factor will continue to grow."

Furniture range launch at Laura Ashley stores

By Maggie Urry

LAURA ASHLEY, the clothing and home furnishings retailer best known for its flowery prints, has launched three ranges of solid wood furniture in an attempt to capture a share of the diverse UK furniture retail market.

Apart from groups such as Lowndes Queensway and MFI, furniture is sold mainly through independent retailers and department stores.

It is generally recognised to be a poorly-served market with sales of furniture far lower per person than in many countries. Other retailers, notably Marks and Spencer and Ikea, the Swedish group, have spotted the market gap.

Laura Ashley has been selling sofas and chairs for many years as well as curtains, cushions, wallpaper and paint. Home furnishings make up about half of the group's sales.

Mr Mike Smith, managing director of the UK retail division of Laura Ashley, said the ranges are positioned upmarket of Marks and Spencer's furniture, and below that of Heal's, part of Storehouse.

The furniture is designed by Laura Ashley and is exclusive to the company. An oak two-door wardrobe costs £845, a walnut desk £495 and an Edwardian-style kitchen corner cupboard £245. There are also accessories such as glassware and kitchen equipment.

Mr Smith is hoping to build up sales to £10m by the end of 1989. Three shops were opened on Friday to sell the furniture. A further five shops already selling home furnishings will carry most of the range as will other large stores. The aim is to have 25 shops within two years. The ranges will also be introduced in the group's European shops and eventually in its US chain.

Customers can order the furniture through any shop or at home from a catalogue. Laura Ashley is operating its own delivery system. Only a few items need to be assembled after delivery and this will be done by the deliverers.

Hurd faces a rough ride on secrecy bill

Michael Cassell on opposition to the proposed reform of the 1911 act

MR DOUGLAS HURD, the Home Secretary, faces an uncomfortable ride in the Commons this week, when the Government pushes through its controversial proposals to reform the Official Secrets Act 1911.

Sitting today alongside Mr John Wakeham, the leader of the Commons, he will have to defend the Government's decision to impose a guillotine on the Official Secrets Bill — intended to curtail further debate on the subject.

The intended move provoked outcry at Westminster at the end of last week, particularly among Tory critics of the proposals who have already united on the issue to mount an embarrassing back-bench rebellion.

A week ago, 18 Tories defied a three-line whip to support moves for inclusion of a "public interest" defence in the bill. The decision to limit the time for further debate threatens to add more recruits to the rebels' cause, although government whips are confident the timetable motion and the legislation itself will pass comfortably through the Commons.

On Wednesday, the Home Secretary will again take his front-bench place as the Commons begins a two-day debate on the final committee stages of a piece of legislation which the Government hails as a liberalising measure, but which opponents portray as repressive and authoritarian.

In seeking to replace legislation which has long been regarded as unworkable because of its "catch-all" approach to the safeguarding official secrets, ministers might have expected a warmer reception. After all, they were tackling an area which had defeated all their predecessors.

The intention is to define for the first time areas of protected information, the unauthorised disclosure of which will be a criminal offence. The great mass of other government information will be freed from constraint.

In some cases, the offence will be absolute - all disclosures being illegal whether or not they are harmful - and for others there will be tests of harm for a jury to consider.

Although various elements of the proposals have provoked criticism, it is the failure to include a "public interest" defence which has rankled most.

Both Labour and Tory critics believe this omission leaves the Government as the sole arbiter of the public interest.

Tory MPs are among those concerned that the Government is prepared to see people go to prison, even if they reveal crime or fraud. There are also worries that, despite government assurances to the contrary, public health and safety issues could be gagged.

The Home Secretary claims that a public interest defence is unworkable in law, a suggestion denied by the Campaign for Freedom of Information, which says the principle is already enshrined in the Obscene Publications Act.

Even so, Mr Hurd says the effect of the public interest defence would be that someone could do whatever harm they wanted, provided they could argue they believed someone else was guilty of misconduct — the harm would be done first and argument about others' possible misconduct would follow later.

His critics inside and outside the Tory party are not impressed. Mr Roy Hattersley, the shadow foreign secretary, says government will still be able to suppress any information it designates as confidential, although most of it will have nothing to do with national security.

With a growing number of Tory MPs making similar noises, Mr Hurd is today likely to spend as much time placating the MPs behind him as criticising those on the other side of the despatch box.

Scots Tories change constituencies team

By James Buxton, Scottish Correspondent

THE Scottish Conservative Party has acquired a new team to lead the organisation which runs the party in the constituencies.

Professor J. Ross Harper, a leading Scottish solicitor, was elected president of the Scottish Conservative and Unionist Association at the weekend by an overwhelming majority of the association's executive.

Mr Brian Meek and Mr Adrian Shinwell were elected vice presidents.

The election of the three is seen as heralding a badly needed shake-up in the party's constituency organisations.

More than a year and half after the party's severe defeat in the 1987 general election, when it lost 11 of its 22 seats, the Conservatives stand at only 20 per cent in the Scottish opinion polls — four points less than the share of the vote they won in 1987.

Many constituency organisations are weak, with few people prepared to work for the party or stand as candidates in local elections. The Conservatives have difficulty persuading influential Scots to declare their support for the party.

The election of the three to the top of the Conservative and Unionist Association is significant partly for the fact that they leapfrogged other officals who, according to traditional practice, would have been promoted to higher posts.

Prof Harper is a personable figure well known to the Scottish public.

He is shortly to stand down as president of the Law Society of Scotland.

Prof Harper said he treated the new post as "a challenge, the objective of which is to make sure that in two to three years time we increase, substantially, the number of Conservative MPs in Scotland. There will be changes in the SCUA. Its public profile must be increased."

Mr Meek is a Tory councillor in Lothian region and a columnist for the Glasgow Herald newspaper. Mr Shinwell is experienced in the party organisation.

A reform of Conservative Central Office in Edinburgh implemented after the general election appears so far to have had only limited effect.

Lord Goold, the party chairman, last year told Mrs Margaret Thatcher, the Prime Minister, that he wished to stand down but she asked him to carry on.

STC plans £4m research centre in south Wales

By Anthony Moreton, Welsh Correspondent

STC is to set up a £4m research and development centre at Cwmbran, the former new town, outside Newport in south Wales.

The telecommunications group has taken one of the Welsh Development Agency's high-technology factories on the Llantarnam industrial park and will merge into it activities which have, until now, been undertaken at nearby Treforest, as well as Maidenhead and Leeds.

The centre, which has been assisted by Winvest, the inward-investment arm of the WDA, will lead to the creation of 65 jobs over the next three years.

STC already employs more than 600 workers at its Newport fibre optic plant.

Mr Martin Willard, general manager of STC's telecommunications electronics division, said the group was bringing together the best skills from around the company to provide research and development projects.

"We needed a small, dedicated centre because this is the way to grow new businesses quickly," he said.

STC's move comes as Triumph Business Systems announced it is to expand production of office-furniture products at Merthyr Tydfil. The company is a leader in the field and its expansion will add 70 jobs to the present workforce.

Majority 'wants Sunday trading laws reformed'

By Maggie Urry

A RELAXATION of Sunday shopping regulations in England and Wales is supported by 63 per cent of people, according to a compilation of four opinion polls. The result will put further pressure on the Government, which is currently considering how to change the Shops Act.

The Shopping Hours Reform Council, a lobby group pressing for shops to be allowed to open from noon to 6pm on Sundays, commissioned polls from Gallup, Marplan, NOP and Mori who questioned 7,000 people in all. Sunday opening is allowed in Scotland.

Opinion polls have consistently found a majority approaching two-thirds of people favour reform of Sunday trading laws, which are outdated and often unenforceable.

An attempt to introduce total deregulation to Sunday shopping in 1986 caused an embarrassing defeat for the Government in 1986. After that, the lobby favouring reform mounted a determined campaign and has come up with the six-hour compromise.

UK NEWS

Labour says tax will be tailored to ability to pay

By Michael Cassell, Political Correspondent

MR JOHN SMITH, the shadow Chancellor, yesterday reiterated Labour's pledge to introduce a progressive system of income tax which more closely relates tax levels to ability to pay.

Mr Smith acknowledged that, under taxation proposals now being completed by the party's review group on economic policy, some standard rate taxpayers would face higher tax liabilities, while the worse-off would see their bills fall.

Speaking on BBC television, Mr Smith said that the present taxation system, with two rates of income tax, had departed almost entirely from the principle of raising taxes according to ability to pay.

Calling for a fairer system of personal taxation, he said: "The principle is quite clear. We want to depart from the principle which treats 95 per cent of the people the same.

"It is manifestly absurd that those on low incomes are taxed on the same rate as those earning maybe three times more."

He said that Britain was almost alone in Europe in operating a standard rate which covered 95 per cent of taxpayers, involving a wide disparity in incomes. He cited the example of West Germany, where income tax begins at a 22 per cent rate and rises to 56 per cent.

Mr Smith said Labour proposed a series of bands, which started below the present 25 per cent basic rate and which exceeded the 40 per cent top rate. There have been some suggestions that the bottom rate could be as low as 15 per cent and the top as high as 60 per cent.

The actual rates and the bands to which they will apply will be discussed within the party over the next few months, although it is unlikely that the final details will be decided until much nearer the next general election.

Mr Smith also emphasised that a higher percentage of gross domestic product and a higher proportion of personal incomes now went in taxation than under the last Labour Government.

He also repeated Labour pledges to limit the level of mortgage interest relief to the standard rate of income tax. He stressed that a Labour government would not implement any sudden changes which could undermine household budgets but he said it was wrong that the better-off should obtain a higher subsidy towards house purchase.

Lawson wants to beat inflation before he departs

Philip Stephens looks at the Chancellor's scope for tax concessions in what is possibly his last Budget

BUDGET 89

AS Mr Nigel Lawson, the Chancellor, approaches his sixth and perhaps final Budget on March 14, the political stormclouds which threatened to engulf him only a few months ago have been lifting slowly.

The Labour Party, stiffened by the return to Westminster of Mr John Smith, the shadow Chancellor, is determined to maintain the momentum of its attacks of his handling of the economy.

The cost of borrowing – now 13 per cent – the prospect of a further sharp rise in the inflation rate, and the possibility of new shocks in the monthly trade figures are seen as offering Labour plenty of ammunition.

Mr Lawson also faces trenchant critics on his own side at Westminster. Mr John Biffen, the former leader of the Commons, has proved a consistent and effective adversary.

But, with financial markets relatively quiet and an expectation that the next move in interest rates will be down rather than up, the general mood on the Conservative backbenches is one of calm, if not of confidence.

The recriminations of the second half of 1988 have been replaced by a feeling that Mr Lawson offers the best hope of solving the problems. His promise of a "soft landing" for the economy is seen as increasingly plausible.

Despite the Treasury's traditional attempts to downplay expectations, the general view is that the Chancellor will find room next month to combine modest tax cuts with a massive public sector surplus.

No-one is expecting a repeat of the dramatic changes seen in 1988. As Mr Terence Higgins, the chairman of the treasury and civil service committee, puts it, Mr Lawson has still to "walk the tightrope" between restraining demand in the economy and avoiding an outright recession.

The political pressure, however, is for some reduction in income tax – either through a 1p cut in the basic rate, called for by most speakers at his meeting last week with the Conservative backbench finance committee, or through a large rise in tax thresholds.

If Mr Lawson does nothing, he will lend weight to Labour's charge that last year's tax cuts were a mistake.

Opinions differ on the exact scope for reductions now. Mr John Redwood, a rising star on the Government backbenches, believes that Mr Lawson could prudently spend £3bn to £4bn and still be left with a £11bn budget surplus. That would allow a 10 per cent rise in thresholds and 1p off the basic rate.

Mr Higgins is more cautious, suggesting a figure closer to £2.5bn, which he says would ensure that fiscal policy would continue to support interest rates in cooling the economy.

Conservative MPs have also presented Mr Lawson with an extensive shopping list of other changes. There is an overwhelming consensus, for example, that he should finally redeem the election pledge made in 1979 by Mrs Margaret Thatcher, the Prime Minister, to abolish the limit on pensioners' earnings.

Reductions in stamp duty and increases in the thresholds for capital gains and inheritance taxes are among the other demands. Not suprisingly, there are few advocates of the steep rise in the taxation of company cars – a move the Treasury is thought to be considering.

A common thread in the broader recommendations is that Mr Lawson should concentrate on those at the lower end of the income scale. By helping the "working poor," he would balance the hefty gains for the rich, which resulted from the 1988 Budget, and blunt Labour's attack.

Against that background there are growing hopes of a significant reduction in National Insurance Contributions for those on low incomes. The Treasury is known to have prepared such a plan before last year's Budget, but it was shelved temporarily.

Reducing contributions at the bottom end of the scale is cheap for the Treasury and could boost work incentives significantly, although it is not quite as straightforward as it looks. Without changes in the system, the low paid would face a reduction in their future benefits.

Not all Conservative MPs believe that Mr Lawson has scope for extensive tinkering with either tax or National Insurance.

Mr Nicholas Budgen, a member of the treasury and civil service committee and a strong critic of the Government's lax monetary stance last year, finds the attitudes of his fellow backbenchers "disagreeably bullish."

Nigel Lawson: wants to keep his reputation intact

Many of them, he says, believe monetary and fiscal policy will have to remain tight for a long time to squeeze inflation and reduce the trade deficit.

Mr Lawson's very success in persuading the party that the economy is on track has raised excessive expectations for March 14. "Most of all, I am in favour of a boring Budget," Mr Budgen adds.

That leads to the intriguing question of whether Mr Lawson will leave the Treasury – and probably the Government – in the Cabinet reshuffle expected later in the year.

He has made no secret of the fact that he does not want to serve as Chancellor for the full life of the present Parliament – or of his wish to bolster his income.

The return of Sir Alan Walters to No 10 Downing Street and the Prime Minister's implacable opposition to full British membership of the European Monetary System offer further incentives for an early departure.

But Mr Lawson is also jealous of his reputation and so cannot afford to leave until the economic outlook is discernibly brighter. Lord Whitelaw warned him last year that the verdict of history would hardly be favourable if he left before inflation had slowed markedly.

His friends add that Mr Lawson will not want to miss the chance of putting the Government on the road towards its eventual goal of a basic rate of tax of 20p in the pound.

Those two factors lead some to believe that he will unveil an extremely tight Budget on March 14 – perhaps incorporating little more than a 1p basic rate cut – and then head for the City a few months later when inflation should be decelerating. Others, however, think that he will want to stay on beyond the summer to make sure his reputation is safe.

Adam Smith Institute seeks privatised mails

By Kevin Brown, Transport Correspondent

THE Post Office should be broken up and privatised, and at least one private sector competitor should be licensed to deliver letters, the Adam Smith Institute, the free-market think tank, argues in a report published today.

The report says the nationalised Post Office monopoly "cannot hope to cater for the range of services of the type and quality which the public wants."

It says the Post Office has persistently failed to meet target delivery times, has a poor labour relations record and has withdrawn from a number of useful services.

The report proposes that:

- The Royal Mail would become a regulatory body responsible for issuing licences and maintaining standards, along the lines of the Office of Telecommunications (Oftel), which monitors the telecommunications industry.
- One or more private companies would be licensed to provide a national letter delivery service in competition with the Post Office. Competitors would be given access to Post Office delivery services in the way that Mercury has access to some British Telecom lines.
- The Post Office would be split into its letter post, parcel post and counter services divisions, each of which would be privatised separately.

The report says the counters division could negotiate contracts with Government and private organisations. It points out that the parcels division already operates in a strongly competitive environment.

The report was welcomed by TNT, the Australian-owned express parcels carrier, which has frequently pressed for competition in letter deliveries.

TNT said it would be seeking an urgent meeting with the Trade and Industry Department to discuss the report and to pursue an earlier application for a licence to deliver mail.

However, other express carriers are sceptical about the prospects for a viable nationwide letter delivery service in competition with the Post Office. Private carriers can deliver letters, but must charge a minimum of £1 per item.

Privatising the Posts, Adam Smith Institute, PO Box 316, London SW1. £9.

Amex warns of growing threat from trade blocs

By Peter Norman, Economics Correspondent

THE safeguarding of the world's free trading system could be the big challenge facing policy makers during the next 15 years, American Express Bank said yesterday.

The latest issue of the Amex Bank Review, published in London, warned that protectionism was on the increase and that the drift to creating trade blocs could prove to be the undoing of the global economy.

The bank said financial markets had yet to focus on the Uruguay Round of trade liberalisation talks, even though the structure of world trade was perhaps the most important influence on the flow of international capital.

The structure of trade would affect fundamentally also the role of major currencies and the reduction of global trade imbalances in the years ahead.

The bank said that economic and financial authorities might be justified in a little self-congratulation having tackled the energy crisis, curbed inflation and avoided a 1930s style slump in the years since 1974.

However, it warned that other issues besides trade must be addressed if the current mood of optimism was to be sustained. Those included the debt problems of the middle income developing nations, the US current account and budget deficits and inflation, which had re-emerged this year as a threat.

Other areas of "unfinished business" were the management of the world currency system, the regulation of securities industries, the creation of a barrier-free Europe by 1992 and the changing East-West political climate in the light of President Gorbachev's policies in the Soviet Union.

Barr & Stroud will open talks on cutting 430 jobs

By James Buxton, Scottish Correspondent

MANAGEMENT and unions at Barr & Stroud, the Glasgow optical equipment and opto-electronics subsidiary of Pilkington, today begin discussing the company's demand for a cut of 430 in the workforce of over 2,000 people.

Pilkington Optronics, Barr & Stroud's parent, said on Friday night that it wanted to make the workforce reduction "to compete more effectively and efficiently in the future."

The company blamed the cuts on the general slowdown in defence procurement and on Barr & Stroud's own reduced order-book for the next two years, especially from the Ministry of Defence.

Barr & Stroud makes products such as gun-sights, night-vision equipment and submarine telescopes. It recently won an order to develop and manufacture the gun-sight system for the new Vickers Challenger tank – an order that was considered a boost to the company's prospects. However, the order is for only the prototype tanks and will not generate extra employment.

The first staff reductions made in recent years at Barr & Stroud will involve managerial, technical, skilled and unskilled workers.

Union leaders said they were stunned by the news and would try to fight the cuts.

Pilkington Optronics controls both Barr & Stroud and Pilkington PE, a defence equipment maker at St Asaph in north Wales, which last year shed part of its workforce.

APPOINTMENTS

Woolworths finance director

■ WOOLWORTHS has appointed Mr Paddy Walker-Taylor as finance director, and Mr Leo McKee as personnel director. Mr Walker-Taylor joins from Marks & Spencer where he led the North American finance team, based in New York. Mr McKee joins from sister company Comet where he was personnel director.

■ Mr Graham Clarke has been appointed marketing director of VICKERS SHIPBUILDING AND ENGINEERING, main operating subsidiary of VSEL Consortium.

■ SIM UNIT TRUST MANAGEMENT, unit trust arm of Schroder Investment Management, has appointed Mr Roderick Duncan as deputy managing director, responsible for sales and marketing, and Mr Robin Stoakley as sales manager, from February 20.

■ Mr John Quin, group finance director of EMAP, has been appointed finance director of SEEBOARD.

■ CHEMRING has appointed Mr Ian Pollicott as sales and marketing director. He was technical director.

■ Mr Guy Costin, managing director and general manager of Masstor Systems, Reading, has been appointed a vice president of MASSTOR SYSTEMS INTERNATIONAL.

CITICORP GLOBAL PAYMENT PRODUCTS has appointed Mr Brian Shingleton *(above)* as director of sales, world travel payment, for Europe, the Middle East and Africa, based in London. He joins from Datastream International.

■ Mr Tom Prior, Mr Nicholas Miller and Mr Richard Green have been appointed directors of SVENSKA INTERNATIONAL.

■ Mr Graham J.L. Hill has joined GRAND METROPOLITAN ESTATES (DEVELOPMENT) as development director. He was managing director of Lesser Land.

■ Mr Barry Hills has been appointed finance and operations director of HIGHLAND ELECTRONICS (DISTRIBUTION), Burgess Hill, West Sussex. Mr Frank Butler becomes sales director.

■ Mr Lawrence Newsome has been promoted to client director on the board of CENTURY FACTORS, debt financing subsidiary of Close Brothers Group.

■ Mr Richard Allsop has been appointed financial director of the DEWPLAN GROUP, High Wycombe.

■ PICT PETROLEUM has appointed Mr John Lander as managing director from February 28. He is director of special projects in the exploration department of Elf UK.

■ Following the $90m acquisition of Datachecker Systems by ICL, information systems subsidiary of STC, Mr Gordon Ambidge has been appointed general manager of ICL RETAIL SYSTEMS (UK). He was managing director of Datachecker UK.

■ Following the recommended final offers by Leucadia for CAMBRIAN becoming unconditional, the board of Cambrian has resigned. Mr P.D. Campbell, treasurer of Leucadia, has been appointed chairman of Cambrian; and Mr I.M. Cumming, chairman, and Mr J.S. Steinberg, president of Leucadia, also join the Cambrian board.

■ ROBINSON PACKAGING has appointed Mr Guy Robinson as financial director. He was group financial services manager.

■ Mr Michael J. Farmer has been appointed managing director of BAIN & CO's UK subsidiary. He was executive vice president in London.

■ Viscount Garmoyle, joint chairman, S.G. Warburg & Co., Mr J. Kemp-Welch, joint senior partner, Cazenove & Co., and Professor M.A. King, director, financial markets group, London School of Economics, have joined the CITY CAPITAL MARKETS COMMITTEE. Mr A.R.F. Buxton, vice chairman and managing director, Barclays Bank, will join the committee in June.

Mr Terry Connolly *(above)* has been appointed chairman and chief executive of the LESSER GROUP. He takes over from Mr Michael Lesser, who relinquishes the post of chief executive to return to the education sector. Mr Connolly was group managing director of the Chrysalis Group.

■ Financial Times Business Information has assigned the development of its financial statistics services to Mr Colin McLatchie, assistant treasurer of Pearson, the parent company. He takes up the newly-created post of development director, FINSTAT, on February 13.

■ Following the merger of CORPORATE ESTATES PROPERTIES and Marylebone Estates Company the following board appointments have been made: Mr Leonard Phillips, formerly managing director of CEP, becomes chairman; Mr John Harrison, Mr Stephen Gale and Mr Richard Sacker, formerly directors of MEC, become executive directors; and Mr Richard English, of Blue Circle Industries, becomes a non-executive director.

■ Mrs Anne Joseph has been appointed company secretary of CHANCERY. She replaces Mr Ian Brownstein, who continues as associate director, finance.

■ Mr B.F. Candle, chairman of B.F. Candle Agencies and active underwriter of non-marine syndicates Nos. 760 and 780, has been appointed a non-executive director of STERLING UNDERWRITING AGENCIES.

Kleinworts form high yield team

■ Mr Hugh Willis, Mr Mark Poole and Mr Symon Drake-Brockman will join KLEINWORT BENSON SECURITIES on March 13 as directors to form a high yield group. All three join from J.P. Morgan Securities. Mr Michael Cohn joins as a director on February 23. He will initially head an effort to trade the non-European bond markets, and will then move to Tokyo where he will head international trading. He joins from Goldman Sachs & Co where he was a vice president. Mr Doug Miles has joined KB Inc as vice president in international sales in New York. He was vice president at Merrill Lynch.

■ LAURENTIAN UNIT TRUST MANAGEMENT has appointed Mr Jim Cross as chairman; Mr Graham Kane as managing director; and Mr John Sherriff, Mr John Biggs, and Mr Ashok Kwatra as directors.

■ DARCHEM SPECIALISED MOULDINGS has appointed Mr Tony Broad, technical director, as director and general manager.

■ Mr Graham Mather, general director of the Institute of Economic Affairs, has been appointed a part-time member of the MONOPOLIES AND MERGERS COMMISSION.

NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Mr Kevin James Wilford *(above)* as business head of the consumer credit division. He joins from Citibank where he was finance director, Diners Club.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Avon Rubber, Melksham House, Market Place, Melksham, Wilts., 2.30
McCarthy & Stone, Queensmount Nursing Home, 18, Queens Park West Drive, Bournemouth, 12.00
BOARD MEETINGS-
Finals;
TR Pacific Inv. Tst.
Interims;
Armour Tst.
Dalgety
Triton Europe
DIVIDEND & INTEREST PAYMENTS-
Banco Nacional De Mexico Fltg. Rate Sub. Nts. 1992 $230.89
Borthwicks 0.5p
British Telecom 4.25p
Broadwell Land 1.36p
Calor Group 6p
Empire Stores (Bradford) 1.95p
Gibbon Lyons Group 1.7p
Grainger Tst. 3.2625p
Halma 0.816p
Latham (James) 4p
Midland Bank Sub. Fltg. Rate Nts. 2001 £158.22
Nat West Bank Prim. Cap Fltg. Rate Nts. (Ser. B) $458.54
Sears 10¼% Bds. 1993 5⅛pc.
Thornton Oriental Inc. Fd. Cap. 40cts.
Tongaat-Hulett 23cts.
Volex Group 6p

TOMORROW
COMPANY MEETINGS-
Archimedes Inv. Tst., 131, Finsbury Pavement, E.C., 12.30
Baggeridge Brick, Plough & Harrow Hotel, Hagley Road, Birmingham, 12.30
Devenish (J.A.), Brewers' Hall, Aldermanbury Square, E.C., 12.00
English China Clays, Hyde Park Hotel, Knightsbridge, S.W., 12.30
BOARD MEETINGS-
Finals;
Cranbrook Electronic
Egerton Tst.
Kymmene Corp.
Leslie Wise
Mersey Dock & Harbour
Tst. of Property
Interims;
Abingworth
Amstrad
Automagic
GT Venture Inv.
Riva
Sinclair Goldsmith
Transrap
DIVIDEND & INTEREST PAYMENTS-
Archimedes Inv. Tst. 8.75p
Avon Rubber 10p
Broad Street Group 0.6p
Devenish (J.A.) 2.8p
Erostin Group 2p
Southend Property Hldgs. 1p
State Bank of New South Wales 10 year Ext. Fltg. Rate Nts. $461.01
Wells Fargo Fltg. Rate Sub. Cap. Nts. 1998 $230

WEDNESDAY FEBRUARY 15
COMPANY MEETINGS-
Control Techniques, Howard Hotel, Temple Place, Strand, W.C., 12.00
Economic Forestry Group, Grosvenor House, Park Lane, W., 11.00
Flexello Castors & Wheels, Holiday Inn, Ditton Road, Langley, Berks., 3.00
Perpetual, Phyllis Court, Marlow Road, Henly-on-Thames, 10.00

BOARD MEETINGS-
Finals;
Arncliffe
BWD
Copenhagen Handelsbank
Gen. Cons. Inv. Tst.
Independent Newspapers
Trencherwood
Interims;
Herrburger Brooks
Joe Hldgs.
DIVIDEND & INTEREST PAYMENTS-
Abbott Labs. 30cts.
African & European Inv. 6% Cm. Pf. 0.6938p
Alphameric 1p
Anderson, Strathclyde 8% Un. Ln. 1986/91 4pc.
Anglo American Inv. Tst. 6% Cm. Pf. 6cts.
Baggeridge Brick 3.75p
Brown & Tawse Group 2.85p
Brunswick Corp. 11cts.
Bucknall Austin 1.1p
Capital Var. Rate 1990 1.94pc.
Chase Manhattan 59cts.
Colgate-Palmolive 37cts.
Fishguard & Rosslare Rlys. & Hrbrs. 3½% Gtd. Pf. 1.225p
Forminster 2.75p
GLC 6¾% 1990/92 3⅜pc.
Investment Co. 0.25p
Lloyds Bank Ser. B Var. Rate Sub. Nts. 1998 12.4375pc.
M. & G. 2nd. General Tst. Inc. 12.173p
Marsh & McLennan 62.5cts.
Pacificorp 66cts.
Royal Tst. Dollar Inc. Fd. Ptg. Rd. Pf. 2.6cts.
Scottish Inv. Tst. 2.2p
Scottish Metropolitan Property 10¼% 1st. Mtg. Db. 2016 5⅛pc.
Sears 7¼% Un. Ln. 1992/97 3⅝pc.
Sterling Inds. 1.1p
TSB Gilt Fd. Ptg. Rd. Pf. (Class B) 3p
Trinity Int. Hldgs. 5% Cm. Pf. 1.75p
Warner Comms. 14cts.

THURSDAY FEBRUARY 16
COMPANY MEETINGS-
Acatos & Hutcheson, Tallow Chandlers Hall, 4, Dowgate Hill, E.C., 12.00
Acals Group, 20, Fenchurch Street, E.C., 11.00
TMD Advertising, Founders Hall, 1, Cloth Fair, E.C., 11.30

BOARD MEETINGS-
Finals;
Bergesen
Brit. Petroleum
Crest Nicholson
Parkdale
Tribune Inv. Tst.
Interims;
Brit. Telecom
Charterhall
Honeysuckle
Photo-Me Intl.
DIVIDEND & INTEREST PAYMENTS-
Bankers Tst. Int. Cap.Gtd. Fltg. Rate Sub. Nts. 1996 $231.6
Control Techniques 3p
Debenham Tewson & Chinnocks 2p
Gates Rubber 5% Cm. Pf. 3.5p
Do. 5% Cm. 2nd. Pf. 3.5p
Raeburn Inv. Tst. 11p
Romney Tst. 3p
Storehouse 2.5p
Treasury 2½% I.L. 2013 £1.4938
Wells Fargo Fltg. Rate Sub. Nts. Feb 1997 $231.6

FRIDAY FEBRUARY 17
COMPANY MEETINGS-
Group Development Cap. Tst., 125, High Holborn, W.C., 12.00
Lee (Arthur), Tapton Hall, Shore Lane, Sheffield, 12.30
BOARD MEETINGS-
Finals;
European Assets Tst.
Interims;
Alumasc
Regentcrest
DIVIDEND & INTEREST PAYMENTS-
Anglo Irish Bank 2.2375p
Burton Group 6p
C.H. Inds. 1.05p
Canadian Imperial Bank of Commerce Fltg. RAte Sub. Cap. Debs. 2085 $468.39
Elga Group 0.4p
Flexello Castors & Wheels 3.4p
Flogas 2.31p
Ford Sellar Morris Props. 1.5p
G.T. Asia (Sterling) Fd. Ptg. Rd. Pf. 3.5p
Goldberg (A.) 1.45p
Perpetual 1.7p
Pilkington 2.66p
Ross Consumer Elects. 1.2p
Scottish & Newcastle Breweries 3.1p

SATURDAY FEBRUARY 18
DIVIDEND & INTEREST PAYMENTS-
Creighton Labs. 1.6p
Treasury 8¼% 1993 4⅛pc.

SUNDAY FEBRUARY 19
DIVIDEND & INTEREST PAYMENTS-
Craton Lodge & Knight 1.8p

PARLIAMENTARY

Today

Commons: Private members' motions until 7 p.m.

Timetable motion on the Official Secrets Bill.

Lords: Atomic Energy Bill, third reading.

Prevention of Terrorism (Temporary Provisions) Bill, second reading.

Question to Government on protection of the World Heritage site at Avebury.

Select committees: Home Affairs: subject, future funding of Channel 4. Witnesses: Independent Broadcasting Authority and Independent Television Association. (Room 15, 4.15 p.m.)

Public Accounts: subject, equipment reliability. Witness: Sir Peter Levene, chief of defence procurement, Ministry of Defence. (Room 16, 4.30 p.m.)

Televising of Proceedings of the House: Witnesses: Official Unionist Party, House of Lords Record Office, Professor J. G. Blumler. (Room 8, 6 p.m.)

Tomorrow

Commons: Local Government and Housing Bill, second reading.

Motion on Farm and Conservation Grant Regulations.

Lords: Companies Bill, committee.

Motions for approval on Access to Personal Files Regulations and Local Authority Social Services Order.

Select committee: Members Interests: subject, parliamentary lobbying. Witness: Contract Cleaning and Maintenance Association. (Room 15, 4.30 p.m.)

Wednesday

Commons: Consideration in committee of the Official Secrets Bill.

Motion on EC document relating to Community/US trade relations.

Lords: Short debate on "Increasing the use of the railways."

Short debate on "The need for more trained engineers and technicians."

London Local Authorities (No. 2) Bill, second reading.

Question to Government on further investigation into the affairs of M. B. P. Russell & Co.

Select committees: Welsh Affairs: subject, the Channel Tunnel and implications for Wales. Witness: Mr Peter Walker, Welsh Secretary. (Room 19, 10.30 a.m.)

Home Affairs: subject, higher police training and the Police Staff College: Witness: Association of Chief Police Officers. (Room 15, 4.15 p.m.)

Public Accounts: subject, Plant Breeding Institute. Witnesses: Sir David Hancock of the Department of Education and Science and Professor W. D. P. Stewart, secretary of the Agriculture and Food Research Council. (Room 16, 4.15 p.m.)

Social Services: subject, future of the National Health Service. Witness: Mr Kenneth Clarke, Health Secretary. (Grand Committee Room, Westminster Hall, 4.15 p.m.)

Transport: subject, British Rail. Witnesses: British Rail officials. (Room 17, 4.30 p.m.)

Treasury and Civil Service: subject, Government expenditure plans, 1989-90 to 1991-92. Witnesses: Treasury officials. (Room 6, 4.30 p.m.)

Joint Committee, consolidation bills: subject, Draft Food (Northern Ireland) Order, 1989. Witness: Mr A. Esdale. (Room 4, 4.30 p.m.)

Thursday

Commons: Conclusion of consideration in committee of the Official Secrets Bill Lords.

Law of Property (Miscellaneous Provisions) Bill, report.

Children Bill, report.

Motions for approval on Farm and Conservation Scheme Regulations.

Select committee: European Legislation: subject, control of mergers. Witnesses: Department of Trade and Industry ministers. (Room 15, 4.30 p.m.)

Friday

Commons: Private members' bills.

Examiners of petitions for private bills: subject, King's Cross Railway Bill. (Moses Room, House of Lords, 11 a.m.)

Trade Fairs and Exhibitions: UK

Current
North London Business and Industry Exhibition (0442 217466) (until February 16)
Picketts Lock, London

February 13-15
Information Technology Skills Exhibition-IT (0491 410222)
Olympia

February 15-16
Welding and Metal Fabrication Exhibition-WELDFAB (021 705 6707)
Harrogate Exhibition Centre

February 18-26
Boat, Caravan, & Leisure Show (021 236 3366)
NEC, Birmingham

February 19-22
International Men's & Boy's Wear Exhibition – IMBEX (01-940 6065)
Olympia

February 21-22
Northern Heating & Ventilating Exhibition (01-680 7525)
G-Mex Centre, Manchester

February 21-24
The Which Computer? Show, together with (on February 22) a conference on "Strategic perspectives: the next generation" (01-940 6065)
NEC, Birmingham

February 28-March 2
International Powder, Granule & Bulk Solids Exhibition – POWTECH (0883 716244)
G-Mex Centre, Manchester

Overseas Exhibition

Current
International Spring Trade Fair of Household Goods, Crystalware, Ceramics, Silverware & Gifts – MACEF (01-242 7289)(until February 13)
Milan

February 17-19
International Holiday and Travel Fair (Cork 273006)
Cork

February 18-22
International Consumer Goods Fair (01-734 0543)
Frankfurt

February 20-23
Construction and Engineering Exhibition (01-437 3344)
Kuwait

February 23-26
International Sports Equipment Fair –ISPO SPRING (01-948 5166)
Munich

February 28-March 3
Computer and Commmunications Exhibition – MEXICO COM EXPO (01-977 3474)
Mexico City

March 12-18
International Spring Fair (0375 392222)
Leipzig

Business and management conferences

February 13
The Institute of Petroleum: North Sea oil and gas-the first quarter century and the next (01-636 1004)
London

February 13-15
Frost & Sullivan: Software maintenance (01-730 3438)
London

February 17
The Economist: 1992 and beyond – Restructuring Europe's financial services (01-839 7000)
Marriott Hotel, London

February 20-21
FT Conferences: Cable television and satellite broadcasting (01-925 2323)
Hotel Inter-Intercontinental, London

February 20
Legal Studies & Services: Mergers & Acquisitions – Major tax, accounting and finance issues (01-236 4080)
Marriott Hotel, London

February 20-22
The FT City Seminar (01-925 2323)
Plaisterers Hall, London

February 22
The Industrial Society: Upward communication and a strategy for development, designed for financial professional services sector (01-839 4300)
Central London

February 23-24
British Association of Hotel Accountants: Hotel financial management towards 2000 (01-952 0673)
Hilton International Hotel, Nicosia

February 28
IBC: Protecting and insuring against country risk in trade (01-236 4080)
The Tower Hotel, London

March 1-2
IBC/Money Management Council: The effects of the Financial Services Act on the Financial Services Industry and the Consumer (01-236 4080)
London Press Centre, EC4

March 2-3
The Economist Conference Unit: 1992 and beyond - practical approaches to the human resource and management development issues (01-839 7000).
Hyatt Regency, Brussels

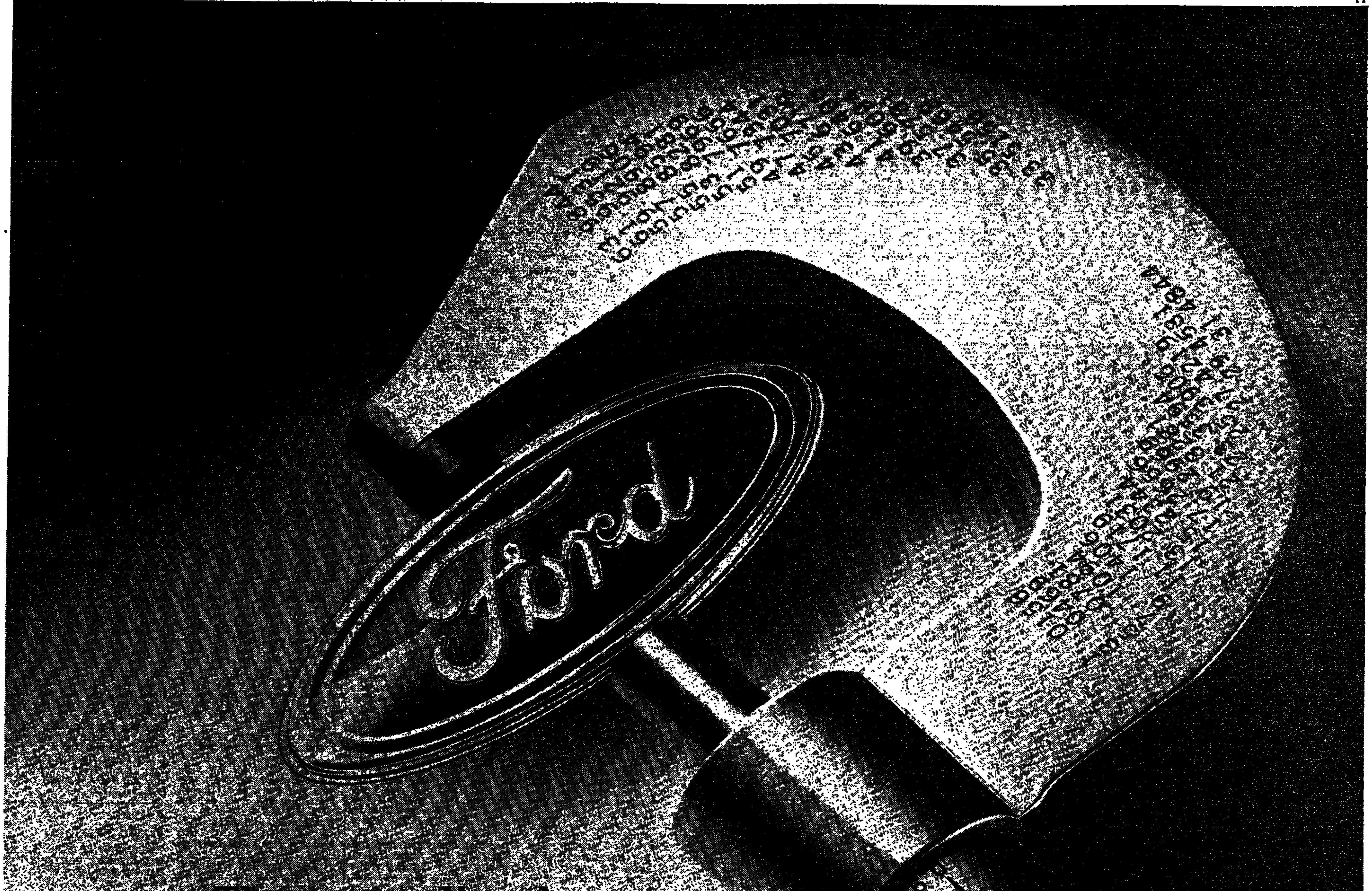
Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

CONTRACTS & TENDERS

COMPANY NOTICE

RENTALS

PUBLIC NOTICE



Controlling a multitude of divisions

Foseco reworks the matrix

Peter Marsh on the UK-based chemicals group's response to a mid-1980s downturn

Bob Jordan, chief executive of Foseco, the Birmingham-based maker of speciality and metallurgical products, puts the challenge facing him succinctly: "We have yet to show to our shareholders that we can get the rewards our global presence should in theory make possible."

Jordan, an amiable and enthusiastic metallurgist who took over at Foseco in early 1987, has spent much of his time since then trying to reorganise the group's structure.

Foseco's annual sales of some £500m are spread among 100 or so divisions operating in 35 countries. Only about a quarter of Foseco's turnover comes from the UK and the company has an especially important presence in continental Europe, where it has a quarter of its 100-odd factories, as well as in the US and Japan.

The issue facing it is common to a host of similarly far-flung companies: how to give overseas subsidiaries some freedom of action within a centrally controlled structure. Additionally, there must be links which bring together managers in different territories with counterparts elsewhere who are coping with related problems in marketing and technology.

Having admitted that it has not had a management structure which maximises its broad geographical and product range, Jordan – whose 27 years at Foseco have encompassed a range of jobs in different parts of the company, including spells in the US, West Germany, Japan and India – is confident he has at last got it right. "I am convinced now that we have the best of all possible worlds," he says, speaking of Foseco's management structure.

Up until two years ago, Foseco was organised largely around the company's three broad product groups, which comprise chemicals for metallurgical operations (the biggest business, which accounts for three-fifths of turnover), and materials for grinding and construction.

There were deficiencies in this organisation, and these, together with the company's dependence on the worldwide steel sector which was going through a difficult time in the early to mid-1980s, led to disappointing financial results over that period.

The main management difficulty was that in each of Foseco's product groups there was a series of executives in charge of a particular aspect of the company's business in a specific part of the world. That led to a proliferation of managers in different countries who had responsibility for a narrow segment of the company's activities – but who were rarely subjected to much in the way of strategic control.

Arising out of this was a general failure to knit together at a regional level key issues concerned with marketing, manufacturing and product development which affected all three of the business groups.

The new system which Jordan has instituted essentially comprises a matrix arrangement in which a group of "regional barons" on Foseco's executive board liaises with a second tier of executives labelled "product champions" who have responsibility for specific product areas and technologies.

Under this arrangement, there are six regional barons, covering Britain, the Far East, the Middle East, Latin and North America and continental Europe. Of these people, only the last three are based outside the UK – although all are expected to travel a lot.

FOSECO WORLDWIDE 1987

	Turnover £m
ACTIVITY	
Chemicals:	
Metallurgical	282
Constn/mining	100
Abrasives	133
REGION	
UK	120
Conti Europe	177
N and S America	120
Asia	71
Africa	20
Australasia	17
TOTAL	515

Complementing them are the eight product champions (formally known as international business directors) who are responsible for core Foseco areas such as mining products, metallurgy and electro-fused materials used in abrasives.

Jordan does not pretend the structure is in itself particularly innovative – similar modes of organisation can be seen in a number of other big companies, including Imperial Chemical Industries, Britain's largest chemicals group – but that it attempts to draw on the best features of some of the other structures he has observed elsewhere.

As a result of the new way of working at Foseco, says Jordan, the channels exist for information about new products and strategies emanating from specific countries to be married where appropriate with ideas related to technologies or markets coming from other divisions of the company.

At the same time the lines of control over regional subsidiaries are more clearly defined in that the "barons" – each of whom looks after a specific part of the world – are in charge of overall planning covering all the product groups in their geographical areas.

This has had obvious repercussions in terms of simplifying decision making. Whereas, under the old structure, Jordan had two top executives each covering countries like Australia and South Africa, he now has one. That reduces the possibilities of the kind of pointless interdepartmental bickering over key decisions that might have arisen under the old structure, so leading to a better use of management time.

Jordan says that the new organisation should, among other things, make it easier for Foseco to plan for 1992 – the date by which trading among different countries in the European Community is due to be made easier as a result of an elimination of customs barriers.

For a company like Foseco, with factories spread out throughout the whole of Europe, 1992 offers considerable opportunities – which it is now examining – for rationalising production and marketing across all three of its product groups within the continent.

Bob Jordan: an enthusiastic metallurgist

Under the old management system, however, Jordan believes it would have been very difficult to get a general enough view of the interactions and possible overlaps between the three businesses to make this kind of planning possible.

Jordan points to one particular event – Foseco's purchase in 1984 of Gibson-Homans, a US construction chemicals company – as an example of a bad decision made partly as a result of the old management system.

The acquisition was generally regarded, both within Foseco and without, as disastrous. This was due, it is thought, to shortcomings within the US company – which was eventually sold off last year.

Jordan says that under the new management approach at Foseco, as a result of which such purchases would be subjected to greater across-the-board scrutiny, mistakes of this sort will be less likely.

As to the concrete results of the new structure, Jordan says they are being reflected in the better financial performance of the company. Foseco had a healthy interim pre-tax profit of £21m for the six months to last June, a 29 per cent rise on the comparable period in 1987.

The City, however, still has its doubts about Foseco – which despite its recent upturn is widely regarded as something of a problem company. There is a particular concern about the degree to which Foseco relies for its sales on a number of essentially cyclical businesses such as metals-working and construction.

"They have got on top of their really difficult problems," says Charles Pick, an analyst at the London office of Nomura, the Japanese stockbroker. "But I have still to be convinced about their long-term future."

Jordan, though, is convinced that the new management organisation will work over the long run. "We are well established in so many regions of the world. If we are persistent and well organised the rewards will come."

Foseco in Japan

Foseco's operations in Japan illustrate the degree to which the speciality sector of the chemicals business is being forced to take on board principles more akin to service than manufacturing companies.

Foseco, like many other companies in the speciality chemicals area, has to put in much management time building up links with customers so it can react to their specific needs for tailored products.

This "service oriented" approach is, says Bob Jordan, Foseco's chief executive, especially important in Japan – where Foseco has had a presence for nearly 30 years and which accounts for just under 10 per cent of total sales.

"We know the market there because we have been there so long," says Jordan. "Anyone trying to make headway in Japan and who hasn't had this depth of presence is doomed to failure."

Tony Sleight, who was a top Foseco executive in Japan for nearly three years and is now one of the company's eight "product champions" (see above) in charge of metallurgy, backs up this point. "It's vital in Japan to get close to your customers and understand them," he says.

The fragmentation of products in Foseco's main business groups – materials for metallurgy, construction and grinding applications – explains why understanding the customer's specific needs is necessary.

Each of the three product fields can be subdivided into a number of areas involving sales of hundreds of different types of materials. Foseco sells these chemicals in a variety of ways. The company might simply sell the materials as powder or chips which the customer processes as it sees fit. On other occasions Foseco might add value to the materials through a range of manufacturing operations; for instance, Foseco's engineers could mould ceramic powder into special filters or pipe linings used in steelmaking.

Although Foseco's activities are often associated with "old-fashioned" metal-bashing, the company's products can involve a high degree of technological sophistication.

This can be seen, for instance, in Foseco's techniques for adding tiny amounts of powder to molten metal in a casting operation to make for a more accurate mould. Such applications require advanced instrumentation for monitoring addition of the materials and the resultant changes in the metal.

According to Jordan, Foseco's attention to this kind of technical detail has enabled the company to strike up a number of important links with big Japanese automotive and engineering companies. These links include joint ventures with Toyoda (the machine-tool subsidiary of Toyota), Asahi Glass and Kawasaki Steel.

Management abstracts

Exhibit yourself. *W Marsh in Australian Accountant (Australia), Jul 88 (4 pages)*

Offers seven pointers to getting the best from an exhibition, including deciding what you want to achieve, ie make hard sales or appointments, get a crowd puller for your target market, never smoke or eat at your stand, don't sit around doing nothing, and never say "Can I help you?". This apparently always attracts the response: "No thanks, just looking."

What a caring company can do. *H L McColl in Across the Board (US), Jul/Aug 88 (6 pages)*

The chairman and chief executive officer of the North Carolina National Bank outlines its personnel policies affecting female employees who make up 75% of the workforce and 43% of the officer ranks. Those policies worthy of note include six months' maternity leave, a free information service for child care, and flexible working hours to fit in with family needs.

The marketing challenge: being profitable and socially responsible. *R Abratt & D Sacks in Journal of Business Ethics (Netherlands), Jul 88 (11 pages)*

Reviews the literature on the development of a marketing philosophy; demonstrates the impact of consumerism on the marketing concept – the right to influence products and marketing practices in directions that will improve the quality of life – and how, from this, the societal marketing concept was born. Discusses aspects of societal marketing and its links with social responsibility and business ethics; considers its validity, pointing out that it at no stage denies that the basic goal of a business is to ensure its long-term survival and profitability.

Meet the hot shot: promotion of the salesperson. *L A Wortman in Business Marketing (US), Aug 88 (4 pages)*

Poses the hypothetical question of what to do with a highly successful salesperson who feels ready for promotion to management – and is prepared to resign if it is not forthcoming – but whose management ability is in doubt.

Offers four courses of action, explaining the pros and cons of each, and opts for the provision of extra training which may make the promotion possible.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

Business courses

Political change in the US – its effect on the world economy, by J K Galbraith, London. March 9. Fee: £241; personal members £207; corporate members £184. Details from Christa Langan, The Strategic Planning Society, 15 Belgrave Square, London SW1X 8PU. Tel: 01-235 0246.

Corporate culture: strategic limitations and opportunities, London. March 3. Fee: £57.50. Details from Judith Fry, Centre for Business Strategy, London Business School, Sussex Place, Regent's Park, London NW1 4SA. Tel: 01-262 5050.

Managing and improving individual effectiveness: team building and skills development, London. March 16–17. Fee: £483. Details from Ms J K van Wycks, Seminar Division, Hawksmere, 12-18 Grosvenor Gardens, London SW1W 0DH. Tel: 01-824 8257. Telex: 8956658 TPS G. Fax:01-730 4293.

Creativity and innovation, a workshop for top management and corporate strategists, Switzerland. April 1–8. Fee: £2,250. Details from the registrar, Strategic Management Learning, 18a Frognal Gardens, London NW3 6XA. Tel: 01-435 8479.

Buy-outs: latest trends, London. March 21. Fee: £264.50. Details from Legal Studies & Services, IBC House, Canada Road, Byfleet, Surrey KT14 7JL. Tel: 09323 55244. Telex:888870.

Product development: what really succeeds in practice?, London. March 15. Fee: £250 + VAT. Details from Diane Callow, KAE Development, 7 Arundel Street, London WC2R 3DR. Tel:01-379 6118.

Correction

David Stanley

The director of innovation at Organisation and Systems Innovations (Oasis) was incorrectly named in last Thursday's Management: Marketing and Advertising page. He is David Stanley.

Architecture

In search of the Cambridge phenomenon

Colin Amery on changing styles in a famous university city

"NEW architecture tends to be over-dramatic, aggressive and highly individual, and committees lap it up, even when carried to the excesses of the Faculty of History and the new Zoology and Mathematics Building on the site north of Downing Street.

"Anyway, the result of this dare-devil attitude of committees is that Cambridge is now one of the happiest hunting grounds in Britain for the specimens of architectural style and fashions." This was the historian Sir Nikolaus Pevsner, writing about Cambridge in 1970 – do his words ring true today?

The city of Cambridge is still certainly a happy hunting ground for anyone even faintly interested in contemporary architecture. It would be true to say that the emphasis today is very different from the 1960s and 1970s, because it is the City that is booming and the University and the colleges that are making more modest progress.

There is a powerful sense, particularly during the twice-daily rush hours, of what has become known as the "Cambridge phenomenon." Traffic, shopping, movement are all on the increase as the science parks and the offices in the city prosper and multiply. It is hard to find a house in Cambridge that does not have a new extension and bay windows filled with word processing technology.

The days of a quiet university town occasionally enlivened by tourists and stylish girls from the language schools has long vanished. But the great architectural beauty of so many of the colleges remains, and there have been moments during this spring-like winter when the misty atmosphere of a demi-paradise can still be briefly encountered.

It was in the early '80s that Clive Sinclair opened his electronics company in a "high-tech" headquarters building elegantly squeezed between 19th century terraces on the edge of the city centre.

It was designed by the local firm of Lyster, Grillet and Harding, and was soon followed by the growth of the Trinity science park and its neighbours and the arrival of more extreme and striking research buildings.

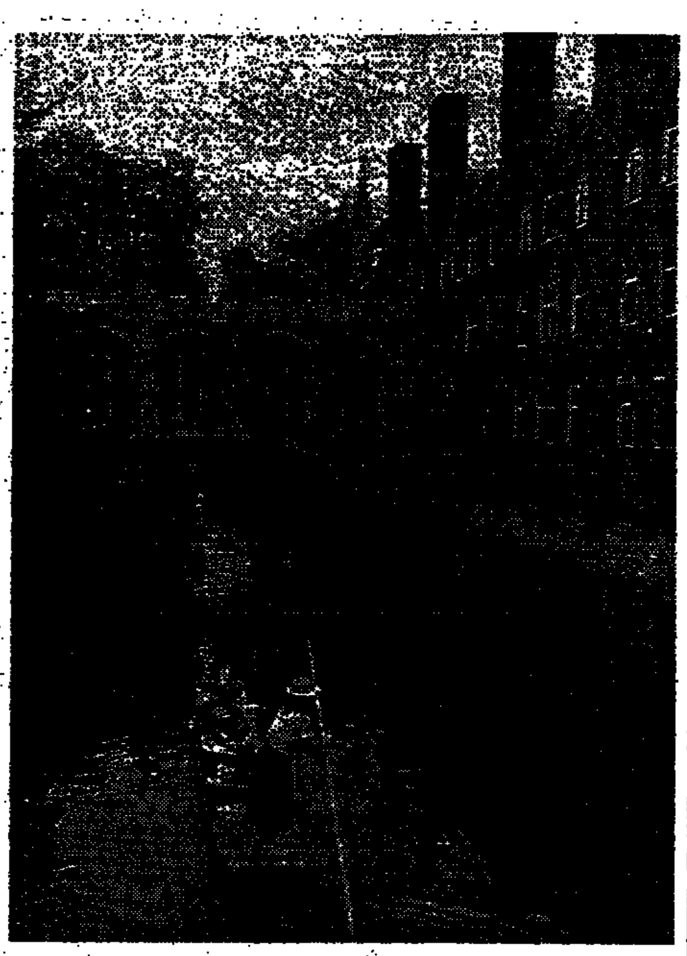
Napp Laboratories do not look particularly at home on the Fens; Arthur Erikson, the architect from Canada, designed them almost in the manner of a film set, a great, steel-framed, moated and gleaming shelter for scientists.

More extreme – and with the added excitement of the genuinely exotic – is the Schlumberger research centre to the west of the city. This tented structure sits in its meadow like an amazing dragon fly temporarily pinned to the earth. Curious, slightly wild and always surprising, this work by Michael Hopkins gives Cambridge a strong flavour of the present.

Is there a Cambridge style? In a town with a university Department of Architecture that officially cohabits with the Department of the History of Art one might expect an historicist bias, but this is far from the case. The department of architecture seems almost romantically entwined with the philosophies of modernist humanism. This has certainly had visible results. Derived from the early convictions of Sir Leslie Martin the Cambridge style is a cautious, neutral brick abstraction banded with concrete. At this moment it is struggling to come to terms with the aftermath of post modernism and the revival of interest in history.

'Cambridge is still a happy hunting ground for anyone interested in architecture'

Two recent college buildings – the Library and Music Room for Clare and the Howard Building for Downing – clearly illustrate the current architectural dilemma. The Clare building is designed by Arup Associates. The siting of it was extremely controversial; it is slap in the middle of Memorial Court of Clare College, which was completed in 1934 to the designs of Sir Giles Gilbert Scott.



Bridge of Sighs, St John's College, Cambridge

This is a handsome, simple, airy court of pale grey brick with a neo-Georgian feel and Adamesque detail. The decision of the college and the architects to place the new library at the centre of the court, blocking the axial symmetry of Scott's University Library, is incomprehensible.

The style of the new library is best described as uncertain. From the east it presents a blank brick wall to the main axis, to the west a curious version of the Pazzi Chapel with a tile roof and an ashlar facade. Ugly little corners of the building form the only routes through to the University Library. You pass by columns as unfortunate as those by the same architects in their earlier Lion Yard development in the centre of the city.

It is the siting that is actively damaging to the formerly peaceful and deliberately large and empty Memorial Court – which was, after all, built to commemorate the dead of World War One. In architectural terms the building is muddled and indifferent.

At Downing College the classical architect Quinlan Terry has added a pavilion to the spacious neo-Grecian campus designed by William Wilkins. This is one of the most popular new buildings in Cambridge. It is not one of Terry's best – mainly, I think, because it is so out of sympathy with the Greek feel of Wilkins original conception.

Terry ignores the stylobate height of Wilkins and mixes up his Orders on their high bases. There is a jovial quality to his classical games but the final effect is irritating because he is so wanton with the classical rules.

The arts faculty buildings on the Sidgwick Avenue site, designed as a precinct by Sir Hugh Casson in 1952, must have once had all the optimism of the Festival of Britain. Looked at today the site has been terribly compromised – and what an opportunity was missed in landscaping terms. This should have been another version of the Backs, but the whole area looks miserable, with the rotting hulk of the History Faculty Library by James Stirling stranded and broken down, its once pristine glazing a mass of broken and sagging blinds.

All the lessons of success and failure of contemporary architecture are to be seen in Cambridge. Fortunately they can be seen in the almost unique perspective of architectural history dating from before the Norman conquest. Cambridge has been architecturally fruitful to visit, and it nobly continues that tradition.

The Schlumberger Research Centre in Cambridge

Don Giovanni

THEATRE ROYAL, GLASGOW

The first thing to say is what a pleasure it is to encounter Mozart on the right scale again. After a *Don Giovanni* at the Salzburg Festival, where there was no intimacy on stage and the voices were swallowed by the vast auditorium, a visit to the Theatre Royal in Glasgow comes as a valuable correction to eye and ear alike.

This is Scottish Opera's second new production in as many weeks (after their successful *Das Rheingold)* and it confirms the high standard of musical preparation the company is enjoying under its Music Director, John Mauceri. Other conductors may make the score more exciting, especially at the headlong speeds favoured by authenticists, but the rewards of Mauceri's careful work on orchestral balance and phrasing were everywhere in evidence.

At the risk of dispensing with all the good news in one go I must also give a prompt welcome to the Donna Anna of Jane Eaglen. This young singer has striven to surmount all the vocal difficulties in the part with immense surety and her known determination to seize any dramatic role by the throat has here resulted in a Donna Anna of fearsome authority. With her big voice ringing out freely, she gave the performance of the evening.

From there on, unfortunately, the going is all downhill. Sets and costumes, apparently acquired from various sources, are paltry and ill-matched. Nor has David Walsh used these disparate goods to build a dramatic staging of much conviction. There are but a few novel ideas and those mostly to be regretted – none more so than the character given to Don Giovanni himself.

On another day one can imagine Jonathan Summers making an impressive stab at the role, as he has the voice and the presence for it. But this production has foisted upon him a concept of Don Giovanni as the fop you love to hate, kitted out in gaudy red leather trousers and periodically stricken with a desire to dash for the nearest stretch of vacant wall and strike an Oscar Wilde pose against it.

Among the rest of the cast there is a lack of comparably striking, detailed portrayals. I enjoyed the Zerlina of Judith Howarth, every note firmly in place in her two arias, even if the personality was a touch self-confident and pert. Oddbjorn Tennfjord was an impressive Commendatore; David Marsh a faceless Masetto.

As Mauceri had opted for the original Prague version of the score, we lost "Mi tradi" and "Dalla sua pace", but with both Kathryn Bouleyn's Donna Elvira and Glenn Winslade's Don Ottavio operating close to the limits of their vocal resources in the music that remained, that was less of a disappointment than it might have been. One wonders what sort of marriage lay ahead for the leading pair, as a single glance from Eaglen's Donna Anna would have been enough to pulverise this Ottavio.

Jonathan Summers, left, and Oddbjorn Tennfjord

The part of Leporello fell to the American bass-baritone Jan Opalach, who made a sturdily-sung, if rather earnest job of it. But then the production as a whole finds little comedy in Mozart's "dramma giocoso". The only rib-tickling moment is the sight of the Scottish Opera Chorus gambolling about the stage in picture-postcard costumes and looking as much like hot-blooded Spanish youth as the regulars of the Rover's Return might on a weekend break to Benidorm.

Now there is an idea – Don Giovanni as a lusty British lager lout. No, Scottish Opera is probably better off as it is. At least this production will be a serviceable blank stage for revivals, when its handful of controversial ideas are forgotten in a year or two's time.

Richard Fairman

Amongst Barbarians

ROYAL EXCHANGE, MANCHESTER

Manchester's Royal Exchange has come up with a winner. In the literal sense, Michael Wall is the latest beneficiary of the Mobil Playwriting Competition; in the metaphorical sense, his blackly-funny study of two young Britons under sentence of death in Malaysia for drug trafficking reveals vivid dialogue and a merciless ear for the claustrophobic chafing of the inarticulate against their barren lives.

Reading in advance, I thought the play ideal for television. Staged in the round, it lacks the sticky atmosphere of Penang prison and tacky hotel rooms. Essentials are carried on and off between scenes, even entailing the clumsy contrivance of a prisoner and jailer playing chess standing up, the guard holding the chessboard. But Vincent Herbert's lighting sets the eastern scene by throwing the spectators opposite into silhouette, as in a puppet shadow theatre, and Alastair Goolden's sound evokes the gangling bustle of the amoral business of surviving between Cancer and Capricorn.

Under James Maxwell's direction, what would be swift and light in the intimacy of television is broadened into the emphatic and garish. This succeeds with the family of one of the condemned boys. Bryan,himself is an effing and blinding Cockney his background pure Mike Leigh: wimpish Dad, loud-mouthed Mum, and sullen, podgy sister (brilliant Kathy Burke) complete with illegitimate baby by an absconded drugs pusher.

Bryan is a born loser. The only prize he ever won was a trip that resulted in becoming a stooge for heroin smugglers. His cell-mate, Ralph, represents the sinister trade but the writing never clarifies his position – tantalisingly, since the part is taken by Ronan Vibert, one of our most intriguingly ntelligent young actors. The vagueness of his background is not filled-in by an estranged mother, played with Alan Bennett northern gentility, who lives in dubious glamour in Marbella.

Mr Wall sets the ignorance and complacency of the brutish against the "barbarians" they despise: a patiently-philosophical (sometimes inaudible) Sikh jailer, a woman Tamil lawyer (played unconvincingly with Joyce Grenfell brightness) and a barman prepared to service the customers with drugs and sex. The title may be ironic, but the death penalty is still arguably more barbaric than hitting the bottle, sniffing coke on the Costa Brava or even supporting Arsenal.

When the play attempts a statement about British society it becomes diffuse and rambling. It is surely impossible to generalise from these very specific individuals. And having made them into comic grotesques, the author unfairly expects us to take them seriously when secrets are revealed: Bryan wrote songs and stories as a kid, his mother is a tippler, sister, Lilly, is hooked on heroin. Revelations pile up until the play's climactic vision of the British in a foreign hotel room, drunk, drugged and lecherous while their young are hanged.

Despite this lurch into the apocalyptic, it works well as a comedy of outrage. Any production with Avril Elgar contains a nugget of gold. As Bryan's mother, she encompasses both calloused cynicism and incoherent tenderness.

Martin Hoyle

Mozart and Strauss

FESTIVAL HALL

Thursday's concert in the BBC Symphony "Mozart and Strauss" series had none of the unforced brio that made the previous Saturday's so delightful. The Strauss works this time – his early *Macbeth*, *Death and Transfiguration* and the closing monologue from *Daphne* – hardly called for that, of course, but John Pritchard treated them rather sternly and deliberately; and Mozart's Symphony no. 39 was downright po-faced. One suspected over-rehearsal.

Mozart's opening Allegro was dignified, steady and coolly lucid, which would have been all right with due contrasts to follow. In fact Pritchard took the slow movement not "Andante", let alone "con moto", but as a dogged Adagio. It was a flat shadow of the symphony we love.

The *Daphne* monologue went much better, granted that the elaborate orchestral part (well prepared here) conjures more magic when it emerges from an opera-pit. The dendriform heroine was Faye Robinson, a black American soprano, slim and poised, who has clearly fathomed the role with insightful sympathy.

The one desideratum for Daphne that she lacks is transparent ease in the highest register: the final wordless cantilena was not effortless.

Macbeth was about as well-turned as that noisy and somewhat incoherent score can be. The racketty murder scene was effective, an extra touch of febrility in the subsequent chaos was needed. So too in the better tone-poem, where death came excessively slowly and soberly; Pritchard's majestically unhurried tempo for the eventual "Transfiguration" would have been better set off by urgent agonies earlier.

David Murray

Flag

QUEEN ELIZABETH HALL

The proliferation of small dance troupes during the past few years has spilled over from Dance Umbrella – which used to shelter them – into secondary oubursts of activity. Among these, the Spring Loaded season proposes a sampling of more than 40 practitioners, with a few known names and many more optimistic aspirants, most to be seen at The Place. I have a suspicion that both the audience and the performers are busily taking in each other's washing, and a self-perpetuating and amoeba-like game of forming and re-forming little dance groups is one of the more doubtful aspects of the new dance scene. But to launch Spring Loaded, two groups – the Cholmondleys (four women) and the Featherstonehaughs (four men) – combined on Friday night in the larger space of the South Bank to perform *Flag* by Lea Anderson, onlie begetter of both ensembles.

The jokey titles of the companies suggest something of the satiric attitudes we are expected to find in *Flag*, a commentary upon national clichés. So there are inevitably Chinese in Mao suits, clutching red books, and indulging in catatonic poses which make a nod at Tai Chi. There are quick-footed nippings and tuckings associated with Scottish dancing, very lively in a duet for two girls that is amusingly undecided if it is really Scottish or Spanish. And there are musical interludes and songs, the scores provided by the Pointy Birds and Drostan Madden, some played with minimalist vigour on stage by the Pointy Birds, who give the evening a motor energy even when the dance looks sluggish.

It is all open and above-board as dance, neatly made, neatly performed, and – blessed relief – it does not hang about, belabouring any point. It also struck me as treating clichés with clichés, and the result is hardly encouraging. National stereotypes can be made to seem funnier and more savage than this.

Clement Crisp

ARTS GUIDE February 10-16

MUSIC

London

London Symphony Orchestra conducted by Rafael Frübeck de Burgos. Janice Cairns (soprano), Janice Taylor (contralto) and Tonio de Paulo (tenor) sing Verdi's requiem. (Thurs) Barbican Hall (638 8891).

Paris

Dame Janet Baker with Geoffrey Parsons. Schubert, Mahler, Men(delssohn, Fauré. (Mon) Théâtre de l'Athenée (47426727).
Orchestre Colonne conducted by Philippe Entremont, with Deszo Ranki (piano). Mozart, Bartok, Mendelssohn. (Mon) Théâtre des Champs Elysées (47203637).
Christa Ludwig (soprano), Charles Spencer (piano). Mahler's Lieder und Gesaenge aus der Jugendzeit. (Mon) Chatelet(40282828).

Vienna

Wiener Bachsolisten conducted by Ernst Wedam. Mozart, Haydn. (Wed). Musikverein.
Suk Kammerorchester conducted by Ahmed Elsaedi (Thurs) Musikverein.

Rome

Juri Temirkanove conducting Rachmaninov's Symphonic Dances op. 45 and Prokofiev's 5th Symphony in B flat Major (Mon, Tues). Auditorium in Via Della Conciliazione (6541044).
Ivo Pogorelich piano recital. (Wed). Teatro Olimpico, Piazza Gentile da Fabriano. (393304).

Milan

Wolfgang Sawallisch conducting Haydn and Richard Strauss (Mon) Teatro Alla Scala (80.91.26).

Florence

Royal Concertgebouw Orchestra conducted by Herbert Blomstedt, with Yo-Yo Ma (cello). Haydn, Bruckner (Wed, Thur). (718 345).

Utrecht

Netherlands Philharmonic under Ken-Ichiro Kobayashi, with Joseph Swensen (violin). Weber, Bruch, Tchaikovsky (Mon).

New York

William Sharp baritone recital with Steven Blier (piano). Poulenc, Hugo Wolf, Virgil Thomson, John Musto, Paul Bowles, Eric Klein, Mark Blitzstein, Gershwin. (Mon) Carnegie Hall (247 7800)
New York Philharmonic conducted by Leonard Slatkin with Mark Peskanov (violin). Stanley Wolfe, Shostakovich. (Tue) Lincoln Center Avery Fisher Hall (799 9595).
Juilliard Orchestra conducted by Leonard Slatkin. Schwantner, Beethoven, Shostakovich. (Wed) Lincoln Center, Alice Tully Hall (874 6770)
Orchestre de Paris conducted by Daniel Barenboim. Berlioz programme. (Thur) Carnegie Hall (247 7800).
New York Philharmonic conducted by Leonard Slatkin. Rossini, Haydn, Bernstein. (Thur) Lincoln Center, Avery Fisher Hall (799 9595)

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich, Andre Watts (piano). Holst, Schubert, Beethoven, Berlioz. (Tue) Kennedy Center, Concert Hall (254 3770)
Prague Chamber Orchestra. Jeremy Menuhin (piano). Profofiev, Mozart, Delius, Dvorak. (Wed) Kennedy Center, Terrace Theater (254 9895)
National Symphony Orchestra conducted by Alessandro Siciliani. Rossini, Mendelssohn, Respighi. (Thur) Kennedy Center, Concert Hall (254 3770)

Chicago

Chicago Symphony Orchestra conducted by Erich Leinsdorf with Ruben Gonzalez (violin), Dale Clevenger (horn), Edward Dryzinsky (harp) and the women of the Chicago Symphony Chorus. Haydn, Chausson, Brahms, Debussy. (Thur) Orchestra Hall (435 6666)

Tokyo

Dang Thai Son (piano). Chopin, Debussy. (Mon) Suntory Hall (235 2243)
Japanese Classical Music. Seiha Koto Ensemble. (Mon) Toshi Centre Hall, Akasaka Mitsuke (268 2965)
NHK Symphony Orchestra conducted by Horst Stein, with Isabelle van Keulen (violin). Kelterborn, Saint-Saens, Franck. (Wed, Thurs) NHK Hall (465 1780)
Tokyo Metropolitan Symphony Orchestra conducted by Jerzy Maksymiuk. Prokofiev, Tchaikovsky. (Wed) Tokyo Bunka Kaikan (822 0727)

SALEROOM

Blake's heads on the block

A sketchbook by the artist and poet William Blake, which had been lost from view for well over a century, is to be sold by Christie's in London on March 21st. It contains 49 drawings of heads, ranging from saints and warriors to murderers and murderesses, and is expected to sell for around £500,000.

Among the heads in the small volume are those of Captain Blood, who stole the Crown Jewels, Mary, Queen of Scots, and Thomas à Becket. The book sold at Christie's in 1864 at the studio sale of the artist William Mulready and realised five guineas.

The work of another artist and writer appears at Christie's five days earlier in a sale of Nordic art. It is "Inferno" painted by the playwright August Strindberg in a mood of bleak despair in 1901 after he had split with his third wife. It carries an estimate of up to £1m..

The London fine art auctions finally pick up steam this week with sales in the main rooms of both Sotheby's and Christie's. Their sibling operations, and their small rivals, Phillips and Bonhams, have been continuously busy but the policy at both Sotheby's in Bond Street and Christie's in King Street is to go for fewer but bigger sales, with more expensive lots (preferably each valued at over £1,000) rather than organise, as in the old days, masses of minor auctions.

But the star lot is being offered by Sotheby's on Thursday at its annual jewellery sale in St Moritz, timed to catch the rich skiers(!) It is the largest green diamond to appear at auction for years. It is pastel green and pear shaped, weighs 10.15 carats, and carries an estimate of up to £850,000.

Sets of bracelets and rings designed by the late Salvador Dali in 1966 should far exceed their £3,000 estimates. British interest will be concentrated on a collection of twenty one silver gilt Easter Eggs and Balls made by Stuart Devlin.

In London much more homely events are on offer. Today Bonhams celebrates Crufts, Phillips offers 450 illustrated postal envelopes on Thursday and on the same day Sotheby's disposes of toys, dolls and textiles.

Antony Thorncroft

FINANCIAL TIMES
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Monday February 13 1989

The US budget game

MR BUSH HAS demonstrated that his eight years at the feet of Mr Reagan were not wasted. His may be a "kinder, gentler" budget, but it is not a wit less implausible than the one left behind by Mr Reagan.

What makes the US budget game peculiar is that it is played entirely with forecasts. Since outcomes have no effect on the subsequent year's target, a successful player has merely to be without the twin handicaps of a strong sense of reality and a nice conscience. Spoil-sports, like the Congressional Budget Office, are a nuisance. Fortunately for the other players, the CBO has been pushed to the sidelines, the job of refereeing the game now falling on the Office of Management and Budget, hardly a disinterested party.

Deficit target

The current fiscal year, 1989 (October 1, 1988 to September 30, 1989) illustrates how champions play the game. The level of skill has been particularly impressive, because this is the year in which "cuts" agreed after Black Monday in October 1987 were supposed to bite.

The Gramm-Rudman-Hollings deficit target for the 1989 fiscal year was $136bn and the OMB forecast $145.5bn (just within the $10bn margin allowed under the law). But the very latest estimate of the outcome is $170bn (with eight months still to go). One reason for the massive overshoot is that, facing no penalty for further delinquency, the Administration is "going for broke", like any owner of a bankrupt thrift. So additional expenditures (on the savings and loan institutions, for example) are being front-loaded into the present financial year.

The experience this year is not an isolated failure. Gramm-Rudman targets were overshot by $50bn in fiscal year 1986 and were met in fiscal year 1987 only because of the revenue windfall associated with the tax reform. They would have been overshot by $47bn in fiscal year 1988, if the revised law of 1987 had not conveniently raised the target from $108bn to $144bn. Even the new targets were then overshot by $11bn in fiscal 1988 and are now expected to be exceeded by $34bn this year.

So how does President Bush intend to meet the G-R-H target of $100bn for fiscal year 1990? The Bush budget for next year has a forecast deficit of $94.8bn against that in the final Reagan budget of $92.5bn. But the CBO has already said that it expected the Reagan budget to generate a deficit of $120bn.

The proposals rest on the assumption that economic growth will increase revenue by almost 9 per cent, while nominal expenditures will rise by less than 1 per cent, well below the rate of inflation (despite the new programmes for a "kinder, gentler America"). Anyone who bets the housekeeping money on Congressional acceptance of such stringency deserves to lose it (though Congress, too, may cheat by accepting what it knows will not give the forecast outcome).

Racing certainties

Presidential economic assumptions remain breathtaking. Real GNP growth is expected to run at well over 3 per cent a year for as far as the eye can see. Although this is almost universally regarded as above the long term potential of the US economy, inflation is expected to fall back slightly, to around 3½ per cent. Meanwhile short term nominal interest rates are forecast to fall to 5½ per cent by 1990, almost 3 percentage points below rates today. If growth does run at the forecast rate, higher inflation and much higher interest rates than those forecast are racing certainties.

The US is running a full employment budget deficit of 2½-3 per cent of GNP and looks very likely to go on doing so until the world cries enough. When that will be is unclear, but one can see storm clouds in the continuing external deficit and the growing inflationary pressures, the latter shown only last Friday by the unexpectedly large rise in the producer price index.

So everyone has finally learned how to read the new President's lips. What he has been saying all along, it turns out, is that the US budget process will remain a fraud, but under him it will be a kinder, gentler fraud.

For sale: used reactors

THE UK Government's announcement that the electricity industry will be subjected to a nuclear levy of about 8 per cent after privatisation is based on faulty logic, bad economics or perhaps a political sleight of hand.

The proper consequence of the Government's own rules for calculating the levy is that it should be set initially at zero. Any higher figure represents an attempt to fatten the industry for the market and to provide higher proceeds for the Treasury at the expense of electricity consumers.

The Government's justification last week for starting the levy at around 8 per cent is that the cost of generating electricity from nuclear plant is at present some 40 per cent more than the cost of power from coal. The levy, taken from fossil fuel plant and handed to the nuclear sector, would allow the two sides to compete on roughly equal terms.

Capital costs

The error in this argument is that the total cost of nuclear power after privatisation will be much less than the cost now. This is because the industry now bears high capital costs for the troubled advanced gas-cooled reactors (AGRs) which are producing little or no electricity.

After privatisation, the capital value of these badly performing plants will be reduced, for the obvious reason that no-one would buy them – or National Power, the company to which they will be assigned – at their value in the books.

At the time of the sale each plant will be worth no more than the value in present day terms of the electricity it will produce during its lifetime, minus the running costs and the cost of de-commissioning. The market, left to itself, would therefore adjust the value of nuclear assets to whatever level were needed to bring down the cost of nuclear electricity to that of its main competitor, power from coal. The Government, as the owner of these under-performing assets, has an obligation to make appropriate write-offs, so that when National Power is offered for sale, its accounts reflect the true value of its nuclear assets.

In a competitive market, the cost of past mistakes made by private enterprise companies must usually be borne by the owners of a business, not by customers. This is what should happen in the electricity industry, where the owner is the Treasury. The Treasury should therefore accept a proper market valuation of the power stations and make appropriate write-offs so that the slate is wiped clean with the nuclear levy starting at zero.

Any other approach will confuse the purpose of the levy, which is to compensate National Power if the cost of continuing with the Government's programme for a family of four new pressurised water reactors turns out to be greater than the cost of power from coal. Whatever the merits of this way of financing nuclear power, it should at least be set up to reflect the true costs of the PWR programme.

Perverse signals

However, if the levy starts at an unjustifiable and arbitrary figure, reflecting costs which should have been written off, it will give perverse signals to the public. Indeed the Government has itself suggested that the levy will fall as the costs of past nuclear errors unwind, even though PWR costs would then be building up to a peak.

The Government's idea of establishing a high baseline for a nuclear levy results from its general confusion about the relationship between low profitability in the past and the future financial health of the industry. Ministers have claimed that electricity prices must be increased to improve the present very low return on assets to a level more appropriate for the private sector. But when the industry is sold, the value of all its assets will necessarily be discounted until the yield on them comes into line with those in the rest of the capital market.

Certainly, customers must pay for future capital investment in electricity, as in water. But tariffs should reflect additional costs when they are incurred, not several years before. They should certainly not be raised to give the Government a fancy price for a job lot of second hand reactors in need of attention.

Ending a UK higher education series, **Michael Prowse** and **David Thomas** look at government priorities

Hidden pitfalls of the free market

Consumer choice, access, and private finance are the altars at which reformers of higher education now worship. Mr Kenneth Baker, the Education Secretary, paid ample homage to all three in his recent speech at Lancaster University, which depicted a US-style future for British higher education. But to what extent will such concerns shape the future of British higher education and, more important, to what extent should they?

In pure theory, the ideal way to maximise consumer choice might be to fund higher education via students rather than via funding councils. Universities and polytechnics could be told to raise fees to the levels required to cover teaching costs. Individual students could be given vouchers to meet tuition expenses, encashable at the institution of their choice. Institutions would then have to compete for custom, and power would shift from the academic-producers of higher education to student-consumers.

The goal of wider access is now almost universally applauded. But Mr Baker knows that the cost of nailing his colours to this mast will be negligible in the next six or so years, which is the practical planning horizon for any government. This is because demographic trends are rapidly depleting the pool of 18- and 19-year-olds. Universities and polytechnics will be lucky to maintain student numbers in the first half of the 1990s.

Government rhetoric about access and choice is being used to justify a shift towards much greater private finance of universities. The voucher model outlined above shows that perfect choice is theoretically consistent with full public funding of higher education. But ministers would like people to think that choice requires people to spend their own money.

Rhetoric about expansion is being used in a similar manner. Expansion will impose impossible strains, runs the argument, unless the cost of each student is reduced, which can only be done using private money. But this ignores the fact, first, that expansion will be possible only in the second half of the 1990s and, second, that the real resource cost of expansion (the strain on the economy) cannot be reduced by switching to private finance.

Universities are already raising small sums from industrial contracts of various sorts, from charitable trusts, private individuals and alumni. Such fund-raising is likely to increase in importance. But most observers agree that big money is only likely to flow into higher education via students and their parents.

The Government is therefore pushing ahead plans to introduce student loans. Its recent white paper proposes to freeze state maintenance grants and parental contributions from 1991 to make room for a gradual build up of loans during the 1990s. The intention is that the loan element in student support should rise in importance until it is equivalent in value to the grant and parental contribution.

But "top up" loans are merely a stalking horse for "top up" fees. In private, ministers make little secret of the fact that they would also like to see institutions impose tuition fees on top of those reimbursed by central or local government. This would make parents and students weigh the financial returns on various types of eduction more carefully.

Some form of student loan scheme looks certain to be introduced, although the Treasury and the Department of Education are fighting over the details. The fate of vouchers and fees, however, is less clear. Mr Baker's Lancaster speech was notably short on concrete proposals.

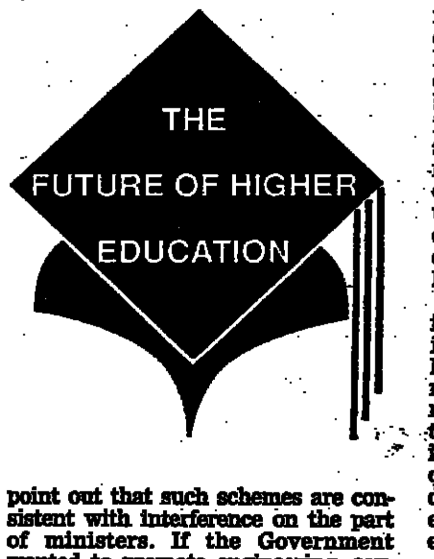
There is room for scepticism about the Government's commitment to consumer choice in higher education. During the last 10 years, ministers have made deliberate value judgments about subjects: for example, when Sir Keith Joseph was Education Secretary, he waged a war against "soft" social sciences such as sociology. Throughout the decade, the Government has attempted to shift resources from humanities to science and engineering – in the belief that this is what the economy needs.

Dr John Horlock, vice chancellor of the Open University, has, like his colleagues at conventional institutions, obeyed the orders to expand science and engineering. But he has no doubts that student demand is pushing in the opposite direction. English departments up and down the country remain heavily over-subscribed, while many of the new places created in science and engineering are not filled, especially in the polytechnics.

Choice also implies institutional diversity and autonomy. Mr Baker claims to want to let a thousand flowers bloom. Yet the University Grants Committee, under the chairmanship of Sir Peter Swinnerton-Dyer, the former Cambridge mathematician, seems dedicated to precisely the opposite policy. It "manages" the universities far more aggressively than was ever the case in the past. Institutions have to prepare lengthy academic plans and are rated on the basis of detailed performance indicators.

There is certainly no question of free market evolving in research as opposed to teaching. The strategy of recent years has been to concentrate resources, select projects and generally pick winners. Sir Peter has played his part by mounting a series of "subject reviews," which are resulting in a far-reaching programme of rationalisations. The number of earth science departments, for example, has already been cut by a third and many small physics and chemistry departments are expected to disappear. The fact that Sir Peter will be the first chief executive of the new Universities Funding Council suggests that an early change of direction is unlikely.

Advocates of vouchers, such as Dr Nicholas Barr and Mr John Barnes of the London School of Economics*,



point out that such schemes are consistent with interference on the part of ministers. If the Government wanted to promote engineering, say, it could offer specially generous vouchers in this subject (to more than compensate for higher tuition costs). Alternatively it could restrict the number of vouchers available in low priority subjects such as sociology.

As a matter of practical politics, Mr Baker would either have to relax his pledge that no university will be allowed to go bust or reserve some vouchers for certain institutions. He would also have to worry about the efficient use of capital stock in higher education, which may be worth around £50bn. Would it be reasonable to allow even 10 per cent of it to lie unused just because students have been bid away from "unsuccessful" institutions? Yet competition is not possible unless there are losers as well as winners.

Vouchers thus seem destined to remain a stimulating topic for after-dinner conversation. Mr Baker is likely to make a token move in the direction of consumerism by reducing block grants to institutions and raising the tuition fees paid on behalf of students by local authorities. At the margin this will create more scope for competition between polytechnics and universities and strengthen the hand of vice chancellors slightly in their dealings with the funding councils. But it will not be a market revolution.

Which may be just as well. The case for consumerism in higher education is easily overstated. Students neither have the information nor perhaps the maturity to make the right judgments. For example, with the exception of Oxford and Cambridge, there is little or no correlation between the quality of applicants to particular departments and the quality of teachers. Many university subjects are not even taught in schools.

Some kind of compromise between free market consumerism and old-fashioned planning is surely required. Surprisingly perhaps, the body most likely to produce a workable compromise is the Polytechnics and Colleges Funding Council, the sister body to the UFC. Rather than making decisions from the top, it intends to invite client institutions to bid for student allocations in various subjects. Bids would be judged on three criteria: the cost of the courses offered; educational quality, as measured by external assessors; and student demand, as demonstrated by over-subscription of courses. Institutions would thus be competing and responding to consumer demand but doing so in a controlled environment where cost, quality and "national priorities" also influence outcomes.

But if the Government is lukewarm about consumer choice, there is no doubting its commitment to private finance in higher education. This will not easily be brought about. The Royal College of Art has broken ranks by indicating that it will begin charging additional fees for students. Universities will be a harder nut to crack. None is likely to charge top-up fees unless Oxford and Cambridge takes the plunge first. But they show no signs of favouring such a policy, being already sensitive to the charge that they take too many affluent students from public schools. If they charged fees, they would look even more like bastions of privilege.

Relying on private finance, however, runs several risks. The first is that when the expansion of higher education is actually required, it will not occur because the private cash required will not be forthcoming: it is worth remembering that most of the funds for higher education come from the public sector even in the free-market US, with its long tradition of personal and corporate responsibility.

The second danger is that private finance will result in rampant vocationalism. The Government was probably right to try to correct the anti-business bias shown by some universities in the 1970s, but the pendulum is in danger of swinging too far. The premise underlying government policy seems to be that higher education is a commodity like any other which can be bought and sold in the market place. This may be true of some disciplines, such as business studies or accountancy, but is it true of ancient history or philosophy? There is a danger that too much private money will distort the balance and priorities of universities, to the lasting detriment of society. Already many dons seem more preoccupied with money-raising schemes than with scholarship.

The third, and most important, danger is that private finance will undermine efforts to broaden the mix of entrants to higher education. Mr Baker is supposedly committed to raising the proportion of children from the lower socio-economic groups that attends universities and polytechnics. But the wrong kind of student loan scheme – one that relies on mortgage-type repayments rather than, say, a slightly higher than average rate of national insurance contributions for graduates with outstanding debts – might well prove counter-productive. The imposition of tuition fees, which are not reimbursed by local or central government, would be a further twist of the knife.

Measures to raise the cost to individuals of a university education look hard to reconcile with rhetoric about wider access. A determination to ensure that more people study economically "useful" subjects is likewise hard to reconcile with rhetoric about "sovereign" consumers. A rational and well-informed debate about the future of British higher education is badly needed; but it will require greater frankness about priorities on the part of ministers than has so far been forthcoming.

**Strategies for Higher Education – The Alternative White Paper. Aberdeen University Press. 1988.*
Other articles in this series appeared on February 6, 7,8,9,10 and 11.

OBSERVER

Greener yet and greener

■ Anyone with teenage children will not be at all surprised that the great British egg controversy goes on, that there is now concern over soft cheeses and that the Government is becoming more and more involved in matters environmental. The children have been telling us about this for some years.

Quite why the young should be so anxious - or where they get their information from – is unclear. A lot of it seems to emanate from independent radio, which broadcasts items about the environment and the ecology between pop records, and therefore has a captive audience. The young listen to it late at night, or even while doing their homework, and have begun to acquire an encyclopaedic knowledge, whether right or wrong. At breakfast they scrutinise the jam pots or the cereals packets in order to know the ingredients and the additives.

Never mind the whys and wherefores, however. The young environmental movement is clearly here to stay. It may even be the most powerful movement of our time and is spreading to the parents. A report prepared for the Green Consumer Week in the supermarkets last year noted the rising level of interests among women with older children. These mothers admitted to being "educated" by their offspring. The children became aware of environmental issues at school, passed on the information to their mothers, who in turn changed their buying habits at the shops. The parents had no objection to being led by the young: on the contrary, they were grateful for being kept up to date with the new sciences which their children had been sent to school to learn.

If all that is correct, as I am sure it is, the environmental movement is still in its infancy. It will advance until we have been through practically every single product. And, of course, it includes other areas, like acid rain.

Some 30 years ago, the key subject that engaged the young was nuclear disarmament, and even that was quite powerful in its time. The environment is far more pervasive. That is why politicians, adults and producers are obliged to take the movement seriously.

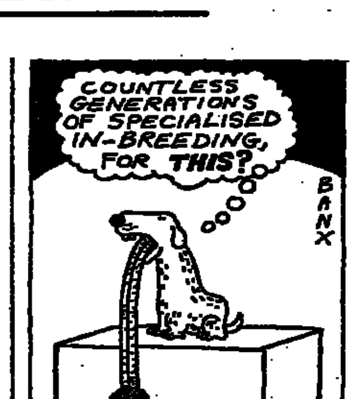
Beams or motes

■ "The deficiencies in the UK official statistics intensified in the third quarter," writes the Bank of England sternly in its latest Quarterly Bulletin. It is particularly disapproving of the calculation of the third quarter GDP figures. Yet perhaps it might have a word with its own statistics department. In the same paragraph, the Bulletin says that third quarter GDP was 6¼ per cent higher than a year earlier. The correct figure is 5.5 per cent.

Marx's paper

■ The forward march of labour really has been halted. Vorwaerts, the most important newspaper in European socialist history, is to close after 113 years. Just when the West German Social Democrats (SPD) are beginning to believe that they might return to power in 1990, the Party has decided to close its weekly organ.

The paper was founded as a daily in 1876 by Wilhelm Liebknecht, and early contributors included Karl Marx and Friedrich Engels, the founder of Russian social democracy. It was a symbol of the central importance of German social democracy for late 19th century socialists – German was the language of the First International. Later on, Lenin and other leading Bolsheviks conducted some of their harangues through its pages.



But Vorwaerts, which went weekly after the last war, has suffered from too close an association with the SPD, despite the fact that the paper is formally independent and its journalists have been routinely at loggerheads with the Party authorities. Circulation is down to 46,000 a week, although Party membership is still over 800,000. It has lost Dm50m since 1970.

Vorwaerts has been threatened with extinction before and lived, and some of the 14 journalists who will lose their jobs are no doubt hoping it will do so again. Less than two years after its foundation in Leipzig, it had to flee to Paris to avoid Bismarck's anti-socialist laws. When Hitler came to power, it moved to Prague and then Paris before disappearing completely for eight years, rising again in 1948.

In recent years it has become known as the mouthpiece of Egon Bahr, now the SPD elder statesman and the brains behind the Ostpolitik when Willy Brandt was Chancellor. But not even Bahr could prevent the SPD's executive voting 13 to 7 to close it down. The title will at least be transferred to the Party's monthly journal.

Dick Wilkins

■ Dick Wilkins, once the senior partner at Wedd, Durlacher, and known in his time as a king of the London stock market, died last week. Looking back at the remarks he made when he retired from full-time business in 1979, he cannot have been too happy at what has gone on since. He complained then that the fun had gone out of the City. "We now have masses of rules and regulations. Once we just had a code." One of his last acts when still at the helm was to help make the then Mr Nicholas Goodison chairman of the Stock Exchange, but the advance of red tape has not been stopped. Many of those who leave the City now say much the same thing. Perhaps they always did.

Pampered

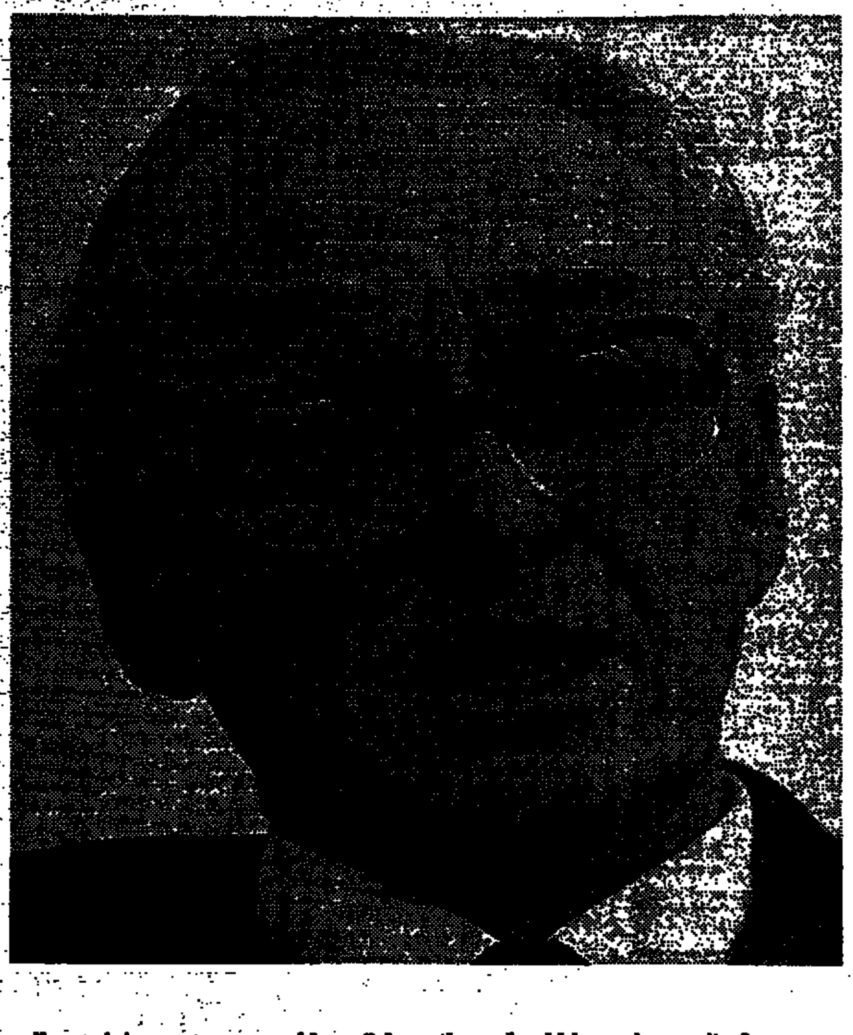
■ Some clever people say that they do not understand this old story, so I shall tell it again. A colleague claims that as he was passing a parked white mini-van, he saw an elderly woman berating the driver. "You should be ashamed of yourself," she was saying, "cramming 57 penguins into the back of a little van like that. You should take them to the zoo." Nonplussed, the driver replied: "But I took them to the zoo yesterday, lady. We're going to the park today."

Last word

■ Heard last week in the moslem quarter of the Old City of Jerusalem. Palestinian stall holder to passing tourist: "Are you English?" Tourist: "Yes". Palestinian: "Ha! Irish people are better."

Richard Evans talks to Nicholas Ridley, the combative UK Environment Secretary

Clearing muddied waters



Mr Nicholas Ridley does not look or sound like a minister whose principal bill is under siege in Parliament and outside, or who could soon be hauled before the European Court for defying the bureaucrats of Brussels.

His laconic, couldn't-give-a-damn manner gives the impression that the difficulties he is said to face over the water privatisation legislation are a figment of the over-fertile imagination of his political opponents and the media.

That is essentially the Ridley style. He is patently brimming with confidence in his own intellectual ability and judgment and seems to suggest, always with the greatest courtesy, that any other view must be fundamentally flawed.

So it is with the Water Bill, now under guillotine debate in its Commons committee stage. The bill has recently attracted a lot of flak. There have even been suggestions that the 10 regional water authorities might not be floated off into the private sector on schedule in November because of a potential conflict with the European Commission over water purity standards.

Mr Ridley will have none of this. In an interview in the Marsham Street headquarters of the Environment Department, he dismissed most of the anxieties as scaremongering and warned that more turbulent currents lay ahead. But the authorities would be privatised on time. Of that he was utterly confident.

Mr Ridley adopts almost a crusading approach towards water privatisation. He is clearly irritated by the scale of the criticism and regards much of it as irrational and mischievous.

But was he not worried by the continuing stubborn unpopularity of the measure, including among Tory voters?

"Not at all. I launched the radical reform of the bus industry where opinion outside and among the operators and passengers was probably 90 per cent against. But if you did a sample now, you would find 90 per cent satisfaction. Nobody bothers once it is in place and working."

Then, more philosophically: "It is the nature of the reformer that he treads rather lonely paths, while others follow reluctantly behind, until they get to the promised land and then they are happy."

Water privatisation, he insisted, was not in trouble. The current hiccups were the result of seeking to do two things at once. The first was to privatise the industry and separate out the regulatory functions, both of which were essential counterparts to each other; but while this was happening there was also growing pressure to invest heavily in increasing environmental standards.

"The interaction of these two things happening simultaneously has given opportunity for misrepresentation as well as giving us some problems," he said.

He believed it was very difficult for commentators to disentangle these two themes and to appreciate how they fitted together.

Mr Ridley was confident there would be no great difficulty with the EC Commission over Britain's compliance with the stringent standards demanded on water quality.

Britain was complying with EC directives and there was no argument over that, he said. The problem was that compliance necessitated an enormous capital investment programme. This had been allowed for, but the sheer physical scale of the work meant it would take many years. Mr Ridley – a qualified engineer – said he had been told by contractors in the industry that the work could not be done any faster because of lack of capacity.

"The problem is you have to allow sufficient time for the massive rebuilding programme to be completed . . . While that work is going on it is crazy to prosecute people, so we propose there should be an immunity from prosecution if there is an agreed investment programme."

He admitted he was not clear what the Commission thought as it had not communicated with the UK Government "except via a press conference and the BBC's World at One." He would like to discover if the Commisison saw a better way of achieving compliance.

"I don't think there will be any difficulty because our point of view is so clearly right," he said. It was the quintessential Ridley statement.

The only flash of anger came when the subject of the statutory water companies' proposed price jump of 30-50 per cent came up. "If anything proved the point that we need the price control regime (that privatisation will bring) it is the action of the private water companies, who are not affected by the Water Bill in any other respect apart from the change in regime."

He was also dismissive of the claims of the water authorities that the average increase of under 10 per cent permitted from April 1 was insufficient for their investment needs. "I thought we were being accused of fattening them up for privatisation. You can't have it both ways."

"We believe 9.8 per cent is about right, bearing in mind their investment profiles for the next decade." The figure is more than the expected rise in inflation in the same period by quite a margin.

By common consent, water was going to be the most highly-regulated of all the privatised services. Was over-regulation going to be a problem for the authorities, as many in the industry feared?

Mr Ridley said he was not worried. He had always believed that monopolies, if privatised, had to be carefully regulated.

"I think it is necessary to have all the powers for regulation, both economic and environmental, in a statute. The touchstone is that you do it effectively, neither allowing the monopoly to thrive too much, nor allowing the customer to be overcharged."

It was a highly professional job and the success of the operation depended on the skill and judgment of the regulator much more than the powers themselves. It would not be in the Director-General's interests to be too hard because he would not want to dry up investment and drive a business into real difficulties. (The Environment Department is still searching for a Director-General of Water Services).

Mr Ridley was keen to separate discussion of the principle of privatising water and its implementation by Parliament from the details of the flotation itself, most of which are some way from a decision.

"Let us get through the legislative process first and then let us look at balance sheet and flotation issues," he said.

He was scornful of suggestions that all the industry's £5bn of debt would be written off to make the authorities more attractive to investors. "That is rubbish. There is no question of writing off all the debt or anything like it. What we have to have are marketable companies, with healthy gearings. I have always made it clear that we would look at each company at the time of flotation, assess its debt and allot it equity to produce a reasonable balance sheet."

For some it would possibly mean more debt and for others it could mean less, but debt structures would not even be considered until the autumn when asset valuations were available.

No decision was imminent either on whether to sell all the equity at once (the total sale is expected to bring in £5bn-£7bn) or to sell 51 per cent initially, or to sell in several stages.

"Whichever mix we choose, it is a market-sensitive decision to be taken in the light of the markets, on the eve of privatisation," said Mr Ridley.

The quarrel over who rules after the Russians

Christina Lamb reports on chaos among the ranks of Afghan guerrillas seeking power in Kabul

If a dollar bill is thrown into a crowd of hungry beggars, it is liable to be torn into shreds as they fight among themselves for the unexpected windfall. The prize of leading Afghanistan after the Soviet occupation is beginning to look like that dollar bill.

Nearly all 115,000 Soviet troops have now left Afghanistan in retreat after more than nine years of occupation. On Wednesday morning the last one, the senior commander, will cross the Oxus River and a humiliating Soviet military debacle will be over.

That should leave Afghanistan to the Afghans, around 10m inside the country and another 5m to 6m as refugees, mainly in Pakistan and Iran. But there are forces hard at work in Pakistan and Iran trying to ensure that Afghanistan does not become *too* independent; the Iranian and Pakistani militaries would each like to influence what happens next in Kabul and are becoming less bashful about their intentions.

The Afghans themselves do not know what to do with their victory. The leaders of the seven main political resistance parties based in Pakistan have rarely agreed on military strategy and never on political structure.

President Najibullah, the Soviet-backed leader of the Communist regime in Kabul, could be excused a chuckle or two over the farcical activities now being played out in the Pakistani city of Rawalpindi as the Afghan guerrillas attempt to cobble together an interim government.

It is not a pretty sight. Perhaps wisely, Sibghatullah Mojadiddi, the current chairman of the alliance of the seven parties based in Pakistan, has taken to his bed, leaving his embarrassed spokesmen to field questions about the prospects of reconvening the *shura*, a religious consultative council, which collapsed after 40 minutes on Friday.

Each of these seven bearded, turbanned and mutually suspicious men from the majority Sunni sect of Islam feels superior to the others. But there are at least eight more parties, based in Iran and representing mainly the minority Shia population. Frustrated by their inability to secure what they regard as adequate representation in the *shura* – and encouraged by the Iranian government – the Shias boycotted Friday's *shura*.

The position now is this: about 400 Sunni delegates to the *shura* are being detained in the Haji Complex in Rawalpindi by Pakistan's Inter-Services Intelligence Directorate, the military intelligence generally known as ISI, which is desperate that the *shura* resumes as it provides ISI with the best hope of getting the government it wants in Kabul.

No delegates representing the Kabul regime have shown up. Very few commanders from inside Afghanistan have arrived. The Shias sent 100 delegates but refused to go the complex when the fundamentalist Sunni groups insisted they could have only 80 seats. They are threatening to return to Iran and then organise an alternative *shura*, but ISI is refusing to let them leave.

Two of the four fundamentalist leaders, Gulbuddin Hekmatyar, an extremist who has very little battlefield experience and declining levels of support within Afghanistan but who is the ISI's favourite "client", and Abdul Sayyaf, insist that the *shura* should go ahead without the Shias.

On the other hand Mojadiddi's party, the Afghan National Liberation Front (ANLF), says it will pull out of the *shura*, probably taking the other two moderate parties with them, if the Shias leave.

It is worth considering the role of spies in all of this. Islamabad and the border town of Peshawar play host to one of the world's highest concentrations of intelligence agents, representing everyone from the KGB to the CIA, Israelis to Italians, in the guise of do-gooders, businessmen, reporters and diplomats. In the midst, and with links to most, is ISI, hard at work in an attempt to realise the dream of the late President Zia ul-Haq of a weak and pliable client government in Kabul.

Saeed Ibrahim Gaylani, adviser to Pir Gaylani, leader of the moderate National Islamic Front of Afghanistan, complained: "I feel very ashamed that after 10 years of fighting that we end up the laughing stock of the world in the capital of Pakistan with the Pakistanis making the *shura*, keeping us in chains, to the extent that they are even present in the dining rooms and bathrooms."

The embodiment of the Zia dream pursued zealously by ISI is an unrepresentative "interim government" which appeared last year under the leadership of a pan-Islamicist called Ahmad Shah.

Although nobody paid much attention to it, the fundamentalist Hekmatyar is a strong supporter of this proposed interim government, seeing it as his vehicle to ultimate power. He wants the *shura* to endorse it and do nothing else.

General Hamid Gul, chief of ISI, wants the same thing so as to have Hekmatyar in control in Kabul. Many Afghan commanders and tribal leaders see this as every bit as undesirable as the Soviet occupation.

ISI and the Iranians may both have over-reached themselves, pushing their demands on their clients too far. All Afghans will now be watching very closely to see how representative the *shura* is – when and if it resumes.

Abdul Haq, the powerful resistance commander for Kabul, for example, says he will wait a couple more days to see whether the shura can reconvene and whether it will then be hijacked by fundamentalists. If it is, he is off with his own elaborate plans to capture Kabul.

This is a scenario ISI is anxious to avoid. Haq despises ISI, partly because it ensured he was without re-supply at some key times because he refused to come under its influence. ISI ambitions would be thwarted with him and other commanders in control in Kabul. Meanwhile the Soviet occupation ends on Wednesday. Each day that Najibullah survives after that, the greater will seem the indictment of the rebels' inability to follow through their remarkable military victory and the more the external powers will have to ask themselves whether they have played their part in conflict to best effect.

LETTERS

Pensions dinosaur

From Mr Philip Chappell.

Sir, Your leader, "Weaknesses in Pensions Schemes" (February 8), adds one more piece of forthright analysis to a pile of FT leaders ("Muddle over Pensions," 1986, "Pensions in a Ferment," 1984, and so on). T ime and again you have exposed the fundamental economic and logical inadequacies of pension schemes based on final salaries and employer-managed funding.

The latest report from the Occupational Pensions Board (OPB), by trying to tidy up some of the more blatant abuses in the present system, merely emphasises its basic inconsistencies and cross subsidies – all to the disadvantage of most of the workforce.

But your leader writers fight shy of the main issue, as does the OPB's report. Whose money is it in the pension funds?

Naively (but wrongly), people might have assumed it all belongs to the members (present, deferred and pensioners). Declare it unequivocably to be such, and the other difficulties vanish in a puff of actuarial smokescreen. Treating pensions as a personal pot of gold eliminates all the arguments about rights and expectations, early leavers, inflation protection, and takeovers.

Nearly a century ago Alfred Marshall noted: "I would not like any institution started which did not contain in itself the causes which would make it shrivel up as the causes of poverty shrivelled up."

But there remains one formidable barrier before we can dismantle the dinosaurs' fortress in the Nanny State of occupational pensions: too many people's livelihoods depend on keeping pensions complicated. Let them retire to read Karl Popper, and recognise the importance of "planning as well as we can for both security and freedom" in an open society which can then enjoy both career mobility and personal ownership of capital.

Philip Chappell,
22 Frognal Lane, NW3.

EC support for higher education

From Mr Graham Blythe.

Sir, It was sad to see, in the article (February 7) about university funding, in your series "The Future of Higher Education," that you failed to mention the valuable role that the European Community is increasingly playing in the promotion of higher education research and teaching activities. (It is particularly sad that you omitted the EC dimension: the FT normally offers by far the best informed commentary about what is happening in the Community.)

In the early 1980s, conscious that Europe's research and technical base was eroding in the face of strong US and Japanese competition, the European Commission developed the "Framework" programme to strengthen European scientific and technological development. Since Framework's inception, institutions of higher education have gained invaluable support from many of the EC's programmes.

Collaborating with industry, and with other academic institutions, European institutions of higher education have usefully put the best of their expertise to work in a diverse range of fields. Their combined efforts have done much to advance the "information society," modernise its industry sectors, and secure and improve long term energy supply. In addition, much good work has been accomplished in medical and environmental research.

EC support extends far beyond scientific research and development (R&D); it is radically improving the access staff and students have to other European institutions of higher education, and to industry. This evolving process is doing much to change the face of European higher education for the better in the run up towards 1992, and beyond. Such valuable support must be recognised.

Graham Blythe,
University of Bristol,
8 Priory Road,
Clifton,
Bristol, Avon

Accounting for brands

From Mr J.R. Knight.

Sir, Your January 27 edition and subsequent comment have clearly implied a conflict between the positions taken up by the Stock Exchange and the Accounting Standards committee on the subject of accounting for brands. There is in principle no conflict at all, and it may help your readers if I explain the position.

At its meeting on January 25 (at which, as a member of that committee, I was present) the Accounting Standards committee considered and adopted an outline statement of principles in relation to brand accounting. It is commonly accepted that the subject bears more examination, and that the Accounting Standards committee is very far from having reached the stage of an exposure draft.

The Stock Exchange has been considering its own rules in relation to the question whether brand values which are already incorporated in the balance sheets of listed companies should be included in assessed values in determining the categories into which acquisitions are to be placed for the purpose of the Exchange's disclosure rules.

The Stock Exchange is, in other words, giving guidance on a particular technical matter in respect of the treatment of items appearing in audited balance sheets. The Stock Exchange is neutral as to whether companies should or should not carry intangibles in the balance sheet, provided the company conforms with the law and with generally accepted accounting practice.

There is no question of conflict between the note of guidance issued by the Stock Exchange, reported in the FT on January 27, and the principles enunciated by the Accounting Standards Committee.

Jeffrey Knight,
The International Stock Exchange,
London EC2

Doorstop

From Mr E.B. Mulholland.

Sir, A significant contribution to the railway door dilemma raised by Mr Henry Law (Letters, February 6) may be found on page four of the Central London Rail Study, published last month.

Overcrowding on British Rail is defined as over 35 standing per 100 sitting in sliding-door stock, and more than one standing per one-seat compartment in slam-door stock. The statistical solution to reducing overcrowding is therefore to phase out slam doors.

Those who lay out £12 on the study will get colour pictures of Nelson's Column, two London street scenes, four front views of differently-coloured trains and one of passengers waiting for a tube train against a back-ground of falling leaves; also a view of the Broadgate development – for which one of two entrances to the Central Line has been closed. There is no longer an alternative exit in case of fire, save to run half a mile along the track to Bank, or a mile to Bethnal Green.

E.B. Mulholland,
Orchard Cottage, Roydon,
Harlow, Essex

Chunnel cri de coeur

From Mr Bill Parker.

Sir, Mr Angus Dunn (Letters, February 2) took up too much of your space in expressing his "not in my back yard" feelings. He would be more convincing if he were to tell us the increased value of his property caused by, say, building the M25, or by other public investments which have disproportionately benefited the south east of England.

The manner and the route of Channel tunnel connections are serious issues, and British Rail (or the Government) may or may not be handling the matter well. But Mr Dunn does not help his case by invoking the prospect of the European Court.

If Britain is to remain competitive it needs excellent links to Europe, and the millions of Britons whose future prosperity depends, to a greater or lesser extent, on the success of the Channel tunnel in opening up more of the UK to rail-borne traffic will read Mr Dunn's talk of "those whose savings have been decimated" as hypocrisy.

Doubtless most of those affected by the Channel tunnel will adapt to it in the positive way that most of us have accepted other people's noisy aircraft crowding our skies.

Bill Parker,
101 East 52nd Street,
New York, USA.

FINANCIAL TIMES
Monday February 13 1989

Janet Bush on Wall Street

A Mutually beneficial relationship

In 1924, Mr Merrill Griswald, a partner of the Boston-based law firm Gaston & Snow, had the idea that individuals could pool their investments and derive the benefits of risk diversification and professional management. The mutual fund was born.

Gaston & Snow helped Massachusetts Investors Trust to set up the first mutual fund and other partners were instrumental in writing the legislation and tax law covering mutual funds.

More than 60 years on, the firm's symbiotic relationship with the mutual fund industry continues. One of its partners, Ms Rekha Packer, a Harvard-educated attorney in her early thirties who specialises in tax law, is at the cutting edge of innovation in the industry.

She typifies one characteristic of the legal profession in the US perhaps not matched elsewhere. Attorneys do not simply service clients, but are often the source of new ideas.

Just as a few New York law firms have been instrumental in formulating takeovers and merger plans, so Ms Packer, with around 150 mutual fund clients, has invented products.

She helped the launch of the first US mutual fund which was tax free for foreign investors. In 1984, Congress wrote into law a tax exemption on portfolio interest for foreigners, allowing tax-free investment in US bonds.

The problem which faced Ms Packer was to set up an investment vehicle which would offer foreign investors professional management and risk diversification without having them forfeit tax-exempt status.

Mutual funds had always been treated as corporations for tax purposes and interest payments were regarded as dividends and therefore taxable. Ms Packer's solution, surmounting formidable technical problems, was to set up mutual funds as partnerships in which investors would be treated as limited partners and not subject to tax. She helped set up these partnerships for four different companies.

A couple of other mutual fund firms copied the blueprint before Congress decreed in 1986 that all partnerships of this kind should be treated as corporations. The party was over, except for the 10 or so funds set up as partnerships before the rule change.

"That was good news and bad news," Ms Packer says, laughing. "I couldn't get new clients for this product but, on the other hand, the clients I had already been working with now have a monopoly!"

Undeterred, Ms Packer began examining offshore mutual funds, another avenue for foreign investors wanting to put their money into the US without paying US tax. Many of these already exist.

The problem Ms Packer has been tackling this time has been clients' desire to do more management of offshore funds within the US to cut costs and use networks of US brokers without running up against the strictures of tax law.

She thinks she has accomplished this with a new fund set up by a Massachusetts-based fund, the first offshore fund to be sold by US brokers.

The trick is to set up operating procedures which avoid taxable activities including the minutiae of how wire transfers are made, how expenses are paid, how money is accepted and how clients solicited.

Ms Packer takes an intellectual delight in working within the tax laws to get the most out of them for her clients. "We sail close to the wind, but by being creative, not by being risky or foolish," she says.

The opportunities for innovation are vast. "This has been the best climate for tax attorneys," she says. "Mutual funds have had a hard time selling normal funds. We have more fun since the crash because people have been saying 'I can't sell the normal fund. Tell me something special, something with a gimmick'."

The next fertile area is overseas where differences in the taxation of mutual funds between countries or even the wording of a bilateral tax treaty can provide opportunities for tax-advantageous investing.

One West German oriented idea reflects the fruits of having a young German intern at Gaston & Snow's Boston offices one recent summer.

"I don't think that any of the tax law specialists in the mutual fund industry are working on quirks between the tax laws of different countries," Ms Packer says. "I am trying to get a French intern this summer, then perhaps a Taiwanese next summer and a Greek student the next!"

Earlier meeting collapses in disarray

Afghan leaders bid to revive talks

By Christina Lamb in Islamabad

THERE were frantic negotiations among Afghan resistance leaders last night in an attempt to reconvene the consultative council which met on Friday to choose an interim government for Afghanistan. The Friday meeting collapsed in disarray less than an hour after it began.

With only 48 hours to go before the completion of the Soviet withdrawal from Afghanistan, the last Soviet base in Kabul was handed over to the Afghan armed forces yesterday and the Soviet-backed government in Kabul renewed its call for direct talks with rebel commanders.

Many delegates to the Afghan resistance's council, or *shura*, in Rawalpindi said yesterday that although talks with the Kabul communist regime were inconceivable they were disillusioned with the persistent failure of the resistance leadership to make political progress and had nominated a council of 30 senior guerrilla commanders and tribal chiefs to protest to the leaders.

They accused extreme fundamentalist groups with backing from some quarters in Pakistan of attempting to hijack the *shura* and impose a "puppet" interim government to take over in Kabul when the present regime of President Najibullah falls.

They have threatened to walk out and call a *loi jirga* (great tribal assembly) inside Afghanistan unless the fundamentalists desist and give all resistance groups a fair say in the *shura* proceedings.

The *shura* was aborted because of a boycott by representatives of mujahideen groups based in Iran who are mainly of the minority Shia sect of Islam.

They complained that the majority Sunni Moslems, based in Pakistan, were denying them a fair share of seats.

Mr Ali Reza Moayyeri, the Iranian Deputy Prime Minister, flew to Islamabad in an attempt to resolve the disagreement.

Two fundamentalist leaders, Mr Gulbuddin Hekmatyar and Mr Abdul Sayaff, say the *shura* should proceed without the Shias, but a spokesman for the more moderate Afghan National Liberation Front (ANLF) threatened that they and the other moderate parties may also boycott the *shura* if the Shias do not participate.

The splits within the alliance worsened when Pakistani authorities took two senior ANLF commanders from their hotel beds in the early hours of yesterday morning and arrested them.

They are Mr Haji Maghash and Mr Mullah Mohammed, both important mujahideen commanders in the area around the south-western Afghan city of Kandahar.

Both are known for their fiercely independent views.

Amid mounting criticism of Pakistani military intelligence's interference in Afghan attempts to form an interim government, Ms Benazir Bhutto, Pakistan's Prime Minister, denied reports that Pakistani forces were massing on the eastern border of Afghanistan ready for an attack on the besieged city of Jalalabad.

"There are no Pakistani troops being massed on the border with Afghanistan. We've got enough problems of national integration. We don't need foreign adventures," she said in Peking on the second day of her visit to China.

She is accompanied by Mr Yaqub Khan, the foreign minister. In their absence military intelligence officers appear to have become more independent in their actions than ever.

The chaotic UN attempt to airlift emergency supplies to Kabul was suspended again yesterday. Ethiopian Airlines pulled out of the operation to fly in 390 tonnes of food and medicines over 10 days after only one flight. The airline gave no reason.

Ethiopian Airlines had taken over from Egypt Air which, after arriving in Islamabad loaded with supplies, refused to fly to Kabul for security reasons.

Who rules after the Russians? Page 13

Libyan plant on agenda at Bonn talks

By David Marsh in Bonn and Peter Marsh in London

SIMMERING commercial rivalries between the US and West Germany may come to the surface today when, during talks with the Bonn Government, Mr James Baker, the US Secretary of State, touches on the sensitive question of West German involvement in the suspected Libyan chemical weapons plant.

Mr Helmut Kohl, the West German Chancellor, believes that American media complaints about West German participation in Libya's Rabta factory partly reflect a US campaign against growing international competition from the West German chemicals industry.

Although industry observers doubt whether this is true, the Chancellor's allegations highlight the raw nerves being exposed in a series of disagreements between the US and the West Germans on strategic and trade issues.

The Libyan affair had already been discussed in Washington last week by Mr Wolfgang Schaeuble, the Bonn Chancellory Minister.

While Mr Kohl is taking a very tough line defending Bonn's actions, both the US and West Germans are anxious to play down disagreement in public.

However, Mr Otto Lambsdorff, chairman of the Free Democratic Party, junior partner in the coalition government, has irritated the Americans by alleging during his recent US trip that the central computer in the Rabta plant was from a US company. Washington maintains this is not true. Mr Lambsdorff refused further comment on this at the weekend.

Asked about Mr Kohl's allegations over chemicals industry rivalry, Mr Earl Armstrong, vice president of DeWitt and Company, a Houston-based consultancy, said the Libyan affair might play badly for West German chemicals companies currently operating in the US.

The three leading West German chemicals groups – none of which has any connection with the Libyan saga – have expanded strongly in the US, where they have combined annual sales of $17bn and employ 70,000 people.

Mr Armstrong said, however, that any public relations damage would be short-term and containable.

Evidence that the rumpus has had no adverse effect so far came last week when Washington gave approval for Huels, the fifth largest German chemicals group, to buy a strategically-important silicon wafer company owned by Monsanto, the US chemicals group.

One senior West German chemicals official said at the weekend that, although the US media had indulged in hysteria over the Libyan affair, he did not believe this was a bid to weaken West German competition.

Referring to the chemical disasters at Bhopal, India and Seveso, Italy and the fire at Sandoz in Basle in recent years, he said that no company is willing to point its finger at another over such an affair – because they know that they can land themselves in the press the next day.

A West German criminal investigation over the Rabta plant is focused on Imhausen, the specialist chemicals company based in southern Germany, which is alleged to have been involved in organising the building of the factory.

The General State Prosecutor's office in Karlsruhe said at the weekend that suspicions against Imhausen had hardened sufficiently for the case to be transferred to a specialist economic crimes agency in Mannheim.

The Bonn Government last week decided to cut off an outstanding DM15m ($8m) in research funding already granted to Imhausen while the investigation was continuing.

GEC seeks to add to US medical equipment side

By Terry Dodsworth, Industrial Editor, in London

THE General Electric Company, Britain's leading electronics group, is looking for acquisitions to expand its US medical equipment business as part of the sweeping reorganisation on which it has embarked in the last three months.

The company has appointed Goldman Sachs, the New York investment bank, to help identify suitable purchase targets in both North America and the Pacific region, centred on Japan.

No ceiling has been set for the proposed acquisitions, but the group is not interested in businesses with sales below $25m. GEC's plans for expansion in the medical equipment market underline the extent of its ambitious attempts to reshape itself after years of relatively modest change.

The group has already indicated that it intends to make acquisitions in the continental European domestic appliance business. This follows its deal with General Electric of the US earlier this year in which the American group took a half share in GEC's Hotpoint subsidiary.

All of the $572m which GEC is due to receive as part of the General Electric transaction has been earmarked for Hotpoint's European expansion programme, with the favourite targets likely to be in Italy.

The future of GEC's medical electronics company, which trades under the name of Picker, has attracted some speculation in recent weeks.

During the flurry of recent deals in which GEC has put over 40 per cent of its operations into joint ventures, Picker's European activities were sold to General Electric. This seemed to indicate that the company had given up hopes of turning Picker into an international business, and might be willing to sell Picker's remaining US medical business or organise a joint venture.

One suggestion was that the company might try to reach agreement with Siemens, the large West German electronics group which has joined with GEC to make a hostile takeover bid for Plessey in the UK. Siemens is the second largest medical electronics company in the world after General Electric of the US, and has a strong position in North America.

GEC, however, does not seem keen on such a scheme, which would be expensive to conclude because of the disparity in size between the two – Picker's sales are now running at around $575m a year, against Siemens' medical division's $1.9bn.

The other large company in the sector is Philips of the Netherlands, but only two years ago GEC pulled out of advanced negotiations with the Dutch concern after a disagreement over terms.

According to Mr Tim Hansen, Picker's vice president for business development in Cincinnati, the company intends to make its acquisitions in its three main areas of activity. These are diagnostic imaging equipment, equipment servicing and the supply of accessory equipment to hospitals.

French protest expected on UK listeria claim

By Our Foreign and Political Staff

MR JOHN MACGREGOR, the UK agriculture minister, will today meet Mr Henri Nallet, his French counterpart, following the disclosure that Britain is considering the possibility of banning products made from unpasteurised milk.

Mr Nallet is expected to use a routine meeting of EC farm ministers in Brussels to protest to Mr MacGregor about the UK Government's warning that soft cheeses such as Brie and Camembert, made in France, can cause listeriosis.

Last week, Sir Donald Acheson, the UK's chief medical officer, warned that soft cheeses might contain listeria bacteria. Mr Macgregor said yesterday that work on the UK Government's proposed food bill, which is expected to include a series of measures intended to improve hygiene standards for the manufacturing, handling and sale of food, is well advanced.

The legislation, plans for which were first announced by the Government in October 1987, is earmarked for inclusion in the next session of Parliament. Despite the intense pressure on the Government to be seen to be acting quickly, it seems unlikely that the bill will be introduced any earlier.

Mr MacGregor acknowledged that the present law had not kept pace with food technology, new food processes and new food products. He said that the consultation process prior to formulating the bill was complete and that the details were being drawn up.

He emphasised that consultations over his intention to ban unpasteurised milk would take two or three months. Discussions over the possible banning of cheeses containing unpasteurised milk are expected to run in tandem.

The French agriculture ministry said yesterday that France has received no official notification from the UK of any cases of contamination of its cheeses, which are rigorously tested by the health authorities at the point of manufacture.

Nor has France officially been notified of any difficulties with British eggs, the ministry noted, scoffing at suggestions of "trade reprisals" between the two countries.

In the EC an alert system is operated where any incidence of contamination is reported to Brussels which then informs other member states. Proposals for food hygiene rules in the EC are being drafted in Brussels in the context of the move to a single internal market in 1992. Guidelines on dairy hygiene were issued by the EC in 1987 after 25 people died of listeriosis after eating Vacherin Mont d'Or, an almost liquid cheese produced on either side of the Franco-Swiss border in the Jura region.

France exports over FFr400m ($63m) a year of cheese to the UK, nearly 40 per cent of it in the form of soft rind cheeses such as Brie and Camembert. Most is made from pasteurised milk. Small samples of French cheese have been periodically found to contain listeria, but the French authorities blame the conditions of transport and storage, rather than the manufacturing process.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	15	59	Dubrovnik	S	12	54	Malta	S	15	59	Rhodes	S	11	52
Algiers	S	17	63	Edinburgh	C	06	43	Manchester	F	08	46	Rio de J'o	C	29	84
Amsterdam	C	08	46	Faro	S	17	63	Manila	C	29	84	Rome	F	17	63
Athens	C	07	45	Florence	F	09	48	Melbourne	S	29	84	Salzburg	S	08	46
Bahrain	F	28	82	Frankfurt	C	01	34	Mexico City	F	26	79	San Francisco	F	13	55
Bangkok	F	31	88	Funchal	C	17	63	Miami	C	24	75	Seoul	F	07	45
Barcelona	S	15	59	Geneva	C	03	37	Milan	Fg	06	43	Singapore	R	28	82
Beirut	R	14	57	Gibraltar	F	16	61	Montreal	Sn	03	37	Stockholm	C	05	41
Belfast	F	05	41	Glasgow	F	05	41	Moscow	C	-1	30	Strasbourg	C	05	41
Belgrade	S	04	39	Guernsey	C	10	50	Munich	S	10	50	Sydney	F	27	81
Berlin	C	06	43	Helsinki	C	02	35	Nairobi	F	23	73	Taipei	C	14	57
Biarritz	S	16	61	H. Kong	F	17	63	Naples	S	15	59	Tangier	S	16	61
Bombay	S	27	81	Innsbruck	S	07	45	Nassau	C	25	78	Tel Aviv	C	07	45
Bordeaux	C	07	45	Inverness	C	02	36	New Delhi	F	20	68	Tenerife	C	18	64
Brussels	C	07	45	Islamabad	C	18	64	New York	F	06	43	Tokyo	F	10	50
Budapest	F	05	41	Istanbul	C	07	45	Nice	S	14	57	Toronto	C	00	32
B. Aires	-	—	—	Jakarta	R	29	84	Nicosia	C	11	52	Tunis	F	15	59
Cairo	C	14	57	Jersey	F	10	50	Oporto	S	15	59	Valencia	R	14	57
Cape Town	F	26	79	Jo'burg	C	22	72	Oslo	F	04	39	Venice	S	07	45
Caracas	C	24	75	Lima	F	28	82	Paris	C	12	54	Vienna	S	08	46
Casablanca	C	19	66	Lisbon	F	16	61	Peking	S	09	48	Warsaw	C	04	39
Chicago	Sn	00	32	London	C	11	52	Prague	R	03	37	Washington	F	-3	27
Cologne	R	09	48	Los Angeles	C	16	61	Reykjavik	Sn	-3	27	Zurich	S	04	39
Copenhagen	F	07	45	Luxembourg	Fg	04	39								
Corfu	S	13	55	Madrid	S	11	52								
Dallas	D	10	50	Majorca	F	16	61								
Dublin	S	08	46	Malaga	S	17	63								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Mitterrand on attack

Continued from Page 1

the Europe of 1993." Mr Mitterrand said, however, that he did not think that renationalisation – for which Mr Jean-Pierre Chevènement, the Defence Minister, argued recently – was necessary.

The President also delivered an emotional defence of his close friend, Mr Patrice Pelat, who was among the investors named recently by the Commission des Operations de Bourse (COB), the French Stock Exchange watchdog, in its recent report on possible insider dealing linked to the takeover by Pechiney, the French state-owned aluminium producer, of the US company Triangle.

"There has never been any event which would have permitted me to doubt him. Why should I have broken off my friendship with him?," the President asked.

Mr Mitterrand also noted that the two other major cases being investigated by the COB, relating to the sugar producer Beghin-Say and to the luxury goods group LVMH did not involve the state.

THE LEX COLUMN

Europe's markets wait their turn

Taxes and trade may be moving towards a single European future, but when it comes to the performance of equity markets geography is still clearly a side issue. In the six extraordinary weeks since the beginning of this year, Britain has again done its bit to destroy the myth of European unity: according to the FT-Actuaries local currency indices, Europe including Britain was the world's best performing region in January – and Europe excluding the UK was the worst.

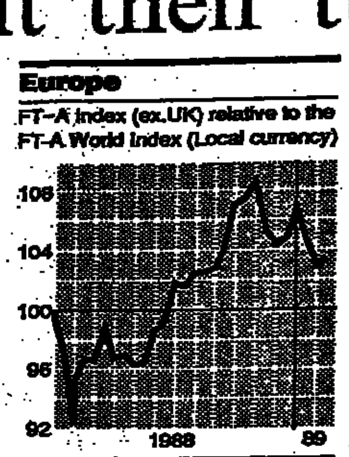
Continental Europe's performance in local currency terms – a 3 per cent rise in the month of January – might have seemed creditable enough under normal circumstances. But it looks decidedly phlegmatic compared with 13 per cent turned in from the British fringes of the European time zone, and a 7 per cent result from America. For those unlucky enough to be looking at things in terms of US dollars, Continental Europe actually ended January worse off than it began, and the FT-A Index for the region in dollars underperformed the overall World Index by almost 5 per cent.

For once, there seem to have been plenty of perfectly good reasons for Europe's restraint – lots of little local annoyances to depress the individual bourses, set in a context of interest rate worries which were more or less new to Continental Europe even if they were getting to be old hat everywhere else. But though a rational case can be made for any or all of these reasons having sapped the Continent's enthusiasm in January, underperformance was really no more than a state of mind: with the US and UK getting stuck into some real gains for the first time in ages, it was simply too much trouble to bother with Europe's second division markets.

These markets were probably ready for a rest in any case. They had gone their separate ways from the UK and US in 1988 as well – but in the opposite direction: while Britain and America rose modestly last year, by 6 and 13 per cent respectively in local currency terms, Europe excluding Britain rose an immodest 31 per cent. Markets which, at the beginning of 1988, had looked undervalued on almost any time scale – relative to the immediate pre-crash past as well as to longer term historical averages – were beginning to look costly enough to repay a pause for reflection. And

Europe

FT-A Index (ex.UK) relative to the FT-A World Index (Local currency)



there was simply no time to be lost elsewhere.

But six weeks does not make a year, and Continental Europe could – indeed, probably should – manage to turn in a respectable performance in 1989. In terms of corporate profits, the Continent should be streets ahead: real profit increases in local terms could average as much as 7 per cent in non-British Europe in 1989, compared with half that or less from the US and UK.

And though the Continental monetary authorities were slower than their British and American counterparts to start getting worked up about inflation – with the result that the European markets did not have to come to terms with tighter money until relatively recently – that no longer seems so much of a disadvantage. Rates look like staying high almost everywhere for a while, in the UK and US as well as in Europe's non-Anglophone markets.

In terms of economic growth, inflation and current valuations, Continental Europe looks arguably more attractive than the US and probably about as good as UK over the next year. France may be starting to seem a bit dear; but there should be more to come from Germany and the Netherlands, and possibly Spain. The dollar, or a US recession, could of course spoil all that. But that was true last year as well, and look what happened.

Gilt market

The Bank of England likes to be discreet and flexible in its dealings with the financial markets, and usually the markets like it that way. However, the bruised and unhappy gilt-edged market is beginning to wish that its gradual dismemberment by the Bank could be conducted on a more formal and predictable basis.

The danger in the present broad approach to buying in stock is that liquidity – the very quality that the Bank praised so enthusiastically in last week's Quarterly Bulletin – will suffer. Indeed, after another year or two of annual haphazard purchases of £5bn spread over a wide variety of issues, illiquidity in some stocks could become a serious problem. Whereas 50 or so different gilts might have been appropriate for a big and growing market, under present policies it could soon become 20 or so too many.

Unfortunately, no easy solution offers itself to the problem of how best to reshape the market to fit its smaller stature; and the Bulletin suggests that the Bank has no definite plan to hand. The difficulty hinges on the fact that investors cannot be forced to sell their gilts, and the high prices needed to persuade them to part with an entire issue would give the taxpayer good cause for complaint. The same sort of objection applies to any predictable buy-in policy: once the market can see the Bank coming, it can simply stage a sellers' strike to order.

No matter how the Bank were to conduct its operations, buying in of stock would still be deeply unpopular, and for excellent reasons. The purchases have taken the volatility out of the market, and have distorted both the yield curve and the level of yields. They have made it difficult for even the most skilled market-maker to make any money, and have left the gilt-edged analysts who have not already been made redundant without a useful job to do.

The entire market has got stuck at a level that is detached from the investor's natural inclinations by about 75 basis points at the short end, and as much as a point at the long end. According to the short end of the curve, gilts are currently expecting a cut of one percentage point in base rates to occur soonish. That is clearly not the case, as the money markets can attest.

Meanwhile, every time prices fall, the Bank starts buying stock; and despite its protestation in the Bulletin that it is not seeking to fix the level of rates, it is difficult to see how it can avoid doing so altogether. Perhaps it means that it will not swim against a world movement in interest rates: which suggests it may stay out of the market for now until it becomes clear just how far the US bond market is planning to fall.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 13 1989

INSIDE

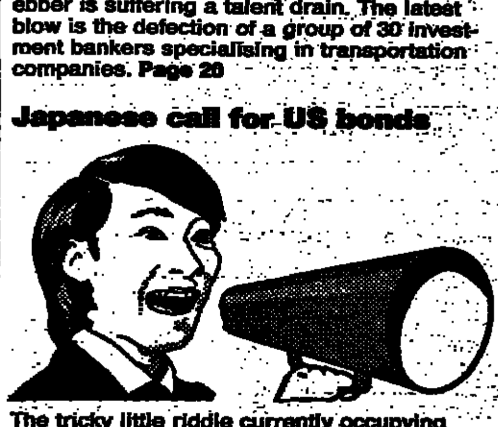
Kitchen full of hot potatoes

British merchant banks, City institutions and senior businessmen are wrestling with issues of principle raised by the possible management buy-out of Magnet, the kitchen and do-it-yourself retail stores group. If successful the bid would be worth more than £500m and be the biggest to date in a series of such deals on the UK stock market. David Waller looks at the problems faced by chairman Tom Duxbury and his fellow directors as they move to take control. Page 20

Transport specialists move

Like other Wall Street securities firms PaineWebber is suffering a talent drain. The latest blow is the defection of a group of 30 investment bankers specialising in transportation companies. Page 20

Japanese call for US bonds



The tricky little riddle currently occupying minds on international bond markets is: When is a public issue not a public issue? At the moment, the answer is when it is a US$-denominated callable issue carrying a coupon of 10 per cent or more. For these issues are so targetted towards Japanese demand that they are virtually private placements. Some $1.5bn or so of callable paper has been launched this year and has been bought by a select group of Japanese. Page 18

Chicago boxes clever

The Chicago Board of Trade is ready to move ahead with the development of an electronic trading system for processing futures trades when its trading floor is closed. The CBOT says it will schedule a membership vote in the next couple of weeks on whether to pursue the development of an electronic system. In the past it has been strongly critical of a move in the futures industry towards black box trading. Page 20

Market Statistics

Companies in this section

How the mighty are fallen

Tim Dickson looks at the declining fortunes of Acec of Belgium

ONCE PROUD Acec, the Belgian engineering business which became a byword for European inventiveness and technical skill in the years after the Second World War, is preparing for what could be its final humiliation.

Dismembered from head to toe over the last few months in a desperate effort to preserve its remaining technology and jobs, the company has called an extraordinary general meeting for today when shareholders will decide how to deal with the group's latest and probably most serious ever financial crisis.

The problem has arisen because of the immediate need under Belgian company law to find a total of BFr3.8bn (£56m) to meet the cost of pension and early retirement benefits which Acec is committed to paying to more than 4,600 of its former employees well into the next century.

This financial "noose" – negotiated in happier times when Acec's order book looked more promising – has not only helped bring the business to its knees but sparked off an embarrassing political row between the Belgian Government and Acec's major shareholder, the leading holding company Société Générale de Belgique.

The dispute boiled over recently when the country's Finance Minister, Mr Philippe Maystadt, a native of and MP for the Charleroi region where Acec's headquarters are based, publicly accused La Générale on local radio of "blackmailing" the other parties involved in the survival plan, and of threatening to put its subsidiary into receivership if it does not get its way.

Latest indications are that Monday's meeting will not be the final shoot-out – but the drama surrounding Acec is already proving one of the most awkward and politically sensitive issues which La Générale has handled since the French investment bank Compagnie Financière de Suez assumed control of the Belgian holding in June last year.

The long and steady decline in the fortunes of Acec – a company equal in size to Philips of Eindhoven in the late 1940s – reveals the sad if familiar story of poor strategic management, bad labour relations, and a range of products ill suited to increasingly fast moving international markets. Its previous owners included Westinghouse of the US in the 1970s, but today a controlling 51 per cent stake belongs to CEDEE, a holding company which in turn is split 65/35 between La Générale and the French Compagnie Générale d'Electricité.

Depicted as one of the three significantly sized "lame ducks" in La Générale's huge portfolio – the other two being Gechem in chemicals and the Liege-based armaments manufacturer FN Herstal – Acec is the only one of the three which does not fit the holding company's new policy of concentrating its efforts on businesses which are European or world leaders, or have the potential to be pre-eminent in their field.

Instead the new La Générale management opted to pursue – and indeed to speed up – the strategy already outlined by Acec's own management in 1986 of either seeking buyers or industrial partners for the group's different activities.

Thus Acec Transport and Acec North (the turbo power systems division) have been sold respectively to the CGE subsidiary Alsthom and to ABB (Asea Brown Boveri); stakes of 51 per cent in Acec energy and Acec Automatisme (industrial process controls) have been sold respectively to Alsthom and CGEE Alsthom; Acec's 57 per cent investment stake in Barco Industries has been sold to the GIMV, the Flemish public investment company; and the final operating subsidiary, the profit making Space Defence and Telecommunications (SDT) sector is currently the subject of negotiations with three interested buyers.

A consortium including the French company Matra and the leading Belgian financier Mr Albert Frère (boss of Groupe Bruxelles Lambert) publicly declared its interest last week while the two rival camps are believed to be led by the French telecommunications group Alcatel and Philips.

When the SDT disposal is completed (probably within the next week) all that will remain of Acec will be two 49 per cent stakes in businesses under French control.

La Générale argues vehemently that the policy of bringing in different industrial partners provides the best hope for retaining jobs and technical expertise in Belgium. "Not only have 2,000 jobs been saved but the companies are in safe hands," it explained. Moreover, the balance sheets of the newly incorporated activities have been cleaned up and the social costs which proved such a burden in the past have now been removed.

Not so the remainder, for Acec Holding as it is now known is saddled with a huge BFr3.8bn liability for the generous pensions and early retirement payments which it has promised to pay to more than 4,600 of its workers up to the year 2004. With less than 1,000 employees left in its two remaining activities Acec cannot generate the necessary funds to meet its obligations – so who will?

La Générale insists that it put forward its plans to the Government in mid-November, well before the capital restructuring schemes for its most troubled subsidiaries which were announced at the end of that month.

Under this proposal La Générale and CGE would contribute BFr1bn between them in new capital, the banks would reduce the interest rates on their loans to the tune of BFr600m, the pensioners and early leavers themselves would have to take a 15 per cent cut in their benefits (saving a further BFr600m), and the Government would provide BFr1.6bn from public funds.

It is La Générale's alleged "take it or leave it" attitude which has provoked the recent rumpus culminating in Mr Maystadt's bitter political attack. As it is pointed out at the company's Rue Royale headquarters in Brussels, however, the alternative "crash scenario" is a bankruptcy in which everyone (except the major shareholders) would undoubtedly lose.

...The beneficiaries would miss out completely on the "extra" benefits to which they are entitled, the banks would fail to get back some of their loans, and the Government is likely to have to find an extra BFr1bn from its Bankruptcy Fund (the Fond de Fermature).

One of the possibilities today is still receivership. But the chances are that the meeting will put off a final decision for a few weeks while an Inter Ministerial working group produces its report and the sale of SDT (and the counting of the proceeds) is complete.

Inexplicable sniggers of George Bush

By Anthony Harris in Washington

An odd thing happened during President George Bush's address to Congress. During his passage about the environment, he came to the bit where he called for the power industry to burn clean coal, and he broke up. He grinned and shook, and the words stumbled: sniggering is the only word for it.

Nobody I have been able to consult knows anything funny about clean coal, so perhaps it was a private joke: Mr Bush is a great one for private jokes. Maybe, on the other hand, he was overcome be the humour of the whole occasion. Here he was, presenting what has turned out to be a budget that is as mean as it is deceptive as a kind and gentle one, and getting away with it.

In a way, it was a masterly political performance: give a heartwarming speech, and then fly off to Canada before they have time to read the small print. It has blind-sided the Democrats in Congress, who have done the kind of double-take that Donald Duck does when he walks over a precipice.

It was nearly a full day before the Democrats saw the abyss, and began an attempt to scramble back on to firm ground; by that time Mr Bush had his headlines. Given the deep unpopularity that Congress incurred by dithering over President Reagan's offer of a 51 per cent pay increase – a poisoned chalice if ever there was one – the Congressmen may have a hard time convincing the public that what is on offer is not a kinder programme, but an unspecified set of harsh real cuts in social programmes, including education.

This was not to be discovered by delving, in the usual way, in the detailed programmes, because there were no detailed programmes. The small print was reduced to a single word, "nominal". As Mr Richard Darman, the Budget Director, made clear on Friday, he is seeking a freeze on military spending in real terms, but a freeze on discretionary programmes in nominal terms.

Note the carefully chosen ambiguity of this term. The word "nominal" no doubt sounds to the public like something insignificant, a nominal charge. What it actually means is that the President wants to provide no money to meet rising costs in health and education, let alone any money to meet rising demographic demand. In real terms, this is a cut of about 4 per cent in the face of rising needs; Congress only has to work out what to cut.

It is small wonder that a slow burn has now set in, with people getting angrier by the minute. Congressman Dan Rostentowski, the powerful Chairman of Way and Means, was telling the Press by Friday that Congress would rather run the budget into the buffers than negotiate on these terms; sequestrations – the automatic programme cuts laid down under the Gramm-Rudman law – would do less damage to social programmes than Mr Bush's studiedly vague proposals.

Mr Michael Boskin, the new chief economic adviser (and the inventor of the flexible freeze) has already responded in kind: the Administration would rather incur a sequestration (which would hit the defence budget hardest) than negotiate on taxes. By mutual consent, in short, the honeymoon has ended rather suddenly, and messily too. One former Budget official who is certainly no radical decribed the Bush proposals to me as "outrageous"; an expert closer to the action said: "Impossible; there is nothing to negotiate here."

What is the meaning of these hostile manoeuvres? The simple explanation is that the President is simply trying to put the maximum pressure on Congress in defence of his tax pledge: it has always been clear that any negotiations on taxes would only come after a long tussle over spending. The sneaky presentation was simply a short-term manoeuvre for the news bulletins – a sound bite – to gain political leverage. The President would need all the leverage he could get if he were seriously bent on getting fiscal policy back on track.

There is one thing wrong with this picture, though: Mr Bush does not seem to be bent on any serious fiscal campaign. As is clear from the few figures that were on offer, most of the supposed deficit-reduction in this budget is a matter of almost transparent deception. It is achieved (as were the proposed Reagan cuts) by front-loading – getting the money spent before the fiscal year begins – combined with fanciful interest-rate assumptions, to which Mr Bush has added wishful thinking about a capital gains tax and some fancy footwork with the growth projections.

In other words, Thursday's presentation was not an effort to force Congress to be fiscally responsible, but to be irresponsible in Mr Bush's preferred way. This is politics, not economics, and can be rationally explained: Mr Bush is pursuing the Truman strategy of running against Congress, deliberately seeking confrontation while avoiding doing anything that would badly hurt the voters. Some Democratic defeats in the mid-term elections would give him some real initiative power.

This idea is supported by the proposed solution for the thrift industry; for here Mr Bush is actually going to impose some pain, but in a way which enables him to blame others. The 70 basis-point charge on deposits for insurance will virtually certainly be passed on to borrowers, and seems to have been structured to secure that result.

Instead of limiting the new charge to the savings and loan industry, where the crimes have flourished, or of allowing Mr William Seidman to take over supervision and charge risk-based premiums, which would provide an incentive for honest management, Mr Bush has hit the whole banking industry. The banks and thrifts have to compete with the securities industry for deposits, but they have a dominant position in housing and consumer loans. Guess who will pay; and guess who will be blamed. It is small wonder that the Fed privately lobbied against the Bush plan.

It is hard for anyone except a win-at-any-price Republican to find much to enjoy in the prospect that now seems to be appearing, a nasty blend of irresponsibility, deception and confrontation. The financial markets are likely to show increasing disillusion as the message sinks in. If this is long-term political strategy, there is no doubt a great deal more to come; the fiscal mess will only be tackled seriously when the Republicans have real control – if then.

However, there is another possible explanation, indirectly suggested by that snigger: that Mr Bush is not the author of all the cunning, but is so far enjoying it in the spirit of a Yale jape. In that case, a growingly hostile reception for his policies, especially hostility in the markets rather than in Congress, could persuade him that it is not really so amusing. Otherwise one would have to conclude that the spirit of the Yale secret society lives on, and that deep down, Mr Bush is shallow.

Economics Notebook

Light shed on IT conundrum

By Peter Norman

A PERSISTENT puzzle in recent years has been the apparent failure of today's technological revolution to translate into faster productivity growth.

Although computers have become ubiquitous, overall productivity growth rates in the industrialised world were lower between 1979 and 1986 than in the 1970s. Despite the very obvious advantages of information technology in saving materials, energy and capital, IT, it seems, has so far failed to provide that major spur to economic growth normally associated with sweeping technological changes.

A new study from the Organisation for Economic Cooperation and Development* throws some light on this conundrum and suggests that an eventual technology-fuelled productivity lift-off may not be far away.

Certainly, last year's unexpected 2.5 per cent jump in OECD productivity so far lacks a convincing explanation. The more effective application of IT could be a hitherto unconsidered reason alongside increased supply-side efficiency in OECD economies and last year's strong demand growth.

The OECD study concludes that radical technological changes need to be accompanied by major institutional changes both at company level and in society if they are to lead to productivity gains.

It draws a fascinating historical parallel between the spread of IT and the diffusion of electric power in the late 19th century. The key technical innovations in electricity were made between the 1860s and 1880s and followed by the establishment of effective generating and transmission systems in the 1880s and 1890s.

But it was not until the 1900s that manufacturers realised the potential of the electric motor to boost productivity. Initially electricity was used merely as a substitute for steam, powering long lines of machines through shaft and belt power distribution systems. Only after manufacturers realised that small electric motors could be used at individual work stations, did the new power source come into its own in terms of flexibility and efficiency.

The optimal application of electricity required change: in machine tool design, plant location and attitudes. Similarly, many factors have to come together if IT is to realise its full potential as a source of economic growth. Besides investment in computers and a worldwide telecommunications infrastructure, IT needs intangible investment in research and development, education, training and changed work practices so that knowledge is not only enhanced but spread throughout corporations and society.

Meanwhile, breaking with past methods can cause adjustment difficulties that reduce productivity. "Snarl-ups" using IT have been all too familiar in manufacturing and service industries.

The OECD report suggests that some countries are coping with the problems better than others. Japan, for example, appears to have overtaken the US in extending the applications of IT even though the US was the world leader in the early exploitation of such innovations as micro-electronics, computers, telecommunications and software.

The emergence of countries as winners and losers in using IT harbours risks. At worst, the OECD warns, it could trigger a "wave of protectionism and world depression" that would represent "by far the most serious threat to employment throughout the system."

That, however, is very much a worst case scenario and the OECD has launched a special Technology-Economy Programme among its 24 member states to ensure that it does not happen.

Alternative measures

Another, more immediate, conundrum is the choice of tools for measuring UK retail sales growth, writes Ralph Atkins. The Confederation of British Industry/Financial Times distributive trades survey published today and Department of Trade and Industry retail sales figures, released this morning, are used to measure the same thing.

One problem is that they are calculated in different ways. The CBI/FT survey is based on replies from about 300 retailers who are asked whether sales in a particular month are higher or lower than the corresponding month a year before. The results are shown as a balance of those reporting increases, minus those noting falls.

The DTI's figures are based on returns from about 3,500 retailers including almost all the very big groups. Results are expressed as an index number of volume sales allowing month-to-month comparisons.

The two sets of results are not necessarily inconsistent. Both currently show a deceleration from peaks last year although, unless today's DTI figures show a big drop, the CBI/FT survey is pointing to a more pronounced slowdown.

The best policy is probably to treat the two measures as snapshots taken from different angles, with the truth lying somewhere in between.

New Technologies in the 1990s – A Socio-economic Strategy. OECD, 2 rue André-Pascal, 75775 Paris Cedex 16. Price 90 Francs.

THIS WEEK

THE STRENGTH of demand in the US economy and the size of its trade deficit are likely to be the focus of attention in financial markets this week.

Merchandise trade figures for December, on Friday, are likely to show another large deficit, emphasising the problem of global trade imbalances.

The consensus of analysts forecasts, compiled by MMS International, the financial research company, is for a deficit of $10.5bn on a customs imports basis.

US retail sales figures for January released tomorrow will give a guide to the buoyancy of consumer spending at the start of the year and possible inflationary pressures. The consensus is for a rise of 0.3 per cent.

Also showing the strength of the US economy will be industrial production and capacity utilisation figures on Wednesday.

A rise of 0.4 per cent and a utilisation rate of 84.4 per cent respectively are expected.

In the UK there is also a stream of economic statistics starting with today's provisional retail sales figures for January published by the Department of Trade and Industry. The consensus is for a rise of 0.2 per cent.

A smaller increase or a fall would boost hopes that high interest rates are having a pronounced impact on consumer spending.

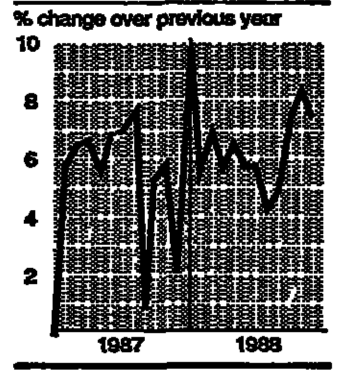
Other UK statistics include January's retail price index on Friday – the last inflation statistic before the Budget on March 14.

A rise of 0.5 per cent is expected, pushing the annual inflation rate to 7.3 per cent, compared with 6.8 per cent in December.

Thursday's labour market statistics will show whether wage pressures have accelerated. Analysts expect the annual growth rate in average earnings to have risen from 8.75 per cent to 9 per cent.

January's unemployment total is expected to have fallen by 40,000 to below 2m for the first time in eight years.

US Retail Sales



Public sector borrowing requirement figures for January, on Thursday, are expected to show a surplus of £8bn.

Central bankers from the Group of Ten leading industrial nations meet for their regular monthly meeting in Basle today.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today: UK producer prices indices (Output prices up 0.7 per cent, input prices up 0.2 per cent) European Community finance ministers meet in Brussels.

Tomorrow: US 10-day auto sales. Treasury bill auction. UK Bank of England international banking statistics in fourth quarter 1988.

Wednesday: UK output of production industries in December (up 0.2 per cent, manufacturing output up 0.5 per cent). US business inventories (up 0.5 per cent). Two-year and five-year Treasury note announcement.

Thursday: West German Bundesbank council meeting. US housing starts (1.56m). UK manufacturing investment in fourth quarter 1988. Vehicle production in January.

Friday: French industrial production for December.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Letters of credit gain a bitter tang

RARELY does it transpire that letters of credit turn sour. These off-balance sheet transactions have offered lenders a chance to earn fee income without having to put up any cash.

But the new regulatory regime on bank capital adequacy has forced banks to see these transactions in a new light, with risk weightings of 100 per cent or 50 per cent for each transaction now required to cover the risks inherent in the guarantees.

For those who doubted the need for such substantial risk weightings when no funds have been extended, consider the recent predicament of Midland Bank.

Midland has emerged as the largest single creditor of Equiticorp Finance Holdings, the Australian arm of Equiticorp International, now in liquidation. Its exposure came about through A$200m, about £100m, in letters of credit.

Two years ago, Midland sold its stake in Associated Midland, an Australian-based consumer finance company, to Equiticorp. As part of the deal, Midland agreed to provide letters of credit for bank lines of credit that the new owners needed to operate the company.

When Equiticorp Finance found itself unable to pay the banks, Midland was called upon to exercise its guarantee.

While Midland said it rarely allows such a large exposure to be established to a single lender, it took on the risk in order to effect the purchase and because it regarded the assets of the firm as relatively low risk.

The assets are for consumer purchases such as cars and boats and are distributed all over Australia.

Midland believes it will eventually collect on its debts. After all, the assets will mature or will be sold and the entity is continuing to act as a going concern.

As a result, the cash flow from the loans will be dedicated to repayment of the letters of credit, rather than placed in a pool for distribution to all creditors.

But even if Midland recoups all its money, the episode is likely to make lenders focus more closely on the risks inherent in letters of credit. Several Japanese banks are said to have approached one provider of financial guarantee insurance about a scheme to securitise letters of credit so that they need not be reserved for at all.

Meanwhile, in the Euroloans market, the burst of activity, propelled by acquisition fever, that saw in the new year appears to have died down for the moment.

Barnett Banks, a large US regional bank holding company based in Florida, has mandated Credit Suisse First Boston to arrange for it a $150m credit, its first in Europe.

The issue consists of a $75m uncommitted competitive advances facility while the remainder is a $75m five-year revolving credit. The margin is 25 basis points over London interbank offered rates (Libor), with a utilisation fee of 10 basis points if more than half the facility is drawn. There is a 10 basis point commitment fee and a 2½ basis point participation fee.

● CSFB also said it completed a financing for another US regional bank holding company, Utah-based First Security Bank. The $50m three-year revolving credit carries a margin of ⅜ to ¼ over Libor, sliding downward as the credit rating of the institution improves. It is currently rated BBB+/Ba-1, but Moody's Investors Service is reviewing the rating for a possible upgrade. The margin and participation fees fall if the rating rises to A3/A-.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	8,312.0	2.1	236.3	9,613.7
Prev	3,853.8	908.8	61.5	11,340.4
Other	6,705.3	15.9	681.5	1,218.6
Prev	5,280.0	388.5	927.5	1,712.9

Secondary Market

US$	16,692.3	1,404.8	5,264.4	5,625.7
Prev	12,599.0	1,424.5	5,177.1	7,451.4
Other	18,049.0	2,008.5	4,220.6	22,483.0
Prev	17,777.8	1,486.2	5,773.1	21,867.4

	Cedel	Euroclear	Total
US$	10,544.5	36,806.8	47,351.3
Prev	11,233.8	31,582.7	42,816.5
Other	24,023.2	31,359.2	55,382.4
Prev	24,524.8	30,688.6	55,213.4

Week to February 9, 1989

Source: AIBD

INTERNATIONAL BONDS

US callable issues solve Japanese investors' dilemma

WHEN IS a public issue not a public issue? At the moment, when it is a US$-denominated callable issue carrying a coupon of 10 per cent or more. Traders say these issues are so targetted towards Japanese demand they are virtually private placements.

Lead managers of the spate of deals which has emerged since mid-January admit that they place the bulk of the paper in Japan before they actually buy the mandate. "You could call them arranged transactions.

A $150m mandate may be launched towards the end of London or New York trading, the paper is sold overnight in Tokyo and only if there is clear demand for at least $125m will the deal be formally launched on London the next day," says one official.

Underwriters have a strong interest in placing every skerrick of their allocation – "We can only sell it in Tokyo, so we would take a big loss if it stayed on our books," comments a lead manager.

Forming syndicates on the deals can be hard work, and one offical suggests that some of the recent deals have been disastrous for the lead manager.

The $1.5bn or so of callable paper which has been launched in the first few weeks of this year has been bought by a select group of Japanese investors attracted by the coupon. The main buyers have been regional, trust and city banks, but life insurance companies and leasing companies are also reported to have shown an appetite for the bonds.

Their interest is simple to explain. Some are keen to lock away what they see as an intrinsically attractive bond. Nearly all the issuers of the bonds have been good quality bank names, which are popular because the investors have minimal capital adequacy requirements as laid down by the Bank of International Settlements. Regulations mean that reserves for bank paper carry a risk weighting of 20 per cent, instead of 100 per cent for corporate borrowers.

Most of the investors, however, have a specific reason for wanting the paper. In the past, when the normal yield curve implied interest rates rising over time, short-term money cost less than long-term funds. Investors can make a turn by borrowing short and lending long.

The current inversion of the yield curve in many of the world's markets makes that straightforward strategy no longer possible. With 6-month inter-bank rates now at 9¾ per cent, yields on conventional Eurobonds have proved too low to generate fund managers' customary profits.

The answer to the investors' arbitrage dilemma comes in the form of the call option. One way to look at the option is that it is a concession the investor sells to the borrower for a price, in this case the relatively high coupon.

The borrower in turn sells the option to the lead manager who pays for it in the form of a sub-market rate swap, usually into floating-rate dollars. The cost of raising the finance for the borrower is thus cheaper than it would be for a conventional issue, and the investor gets a coupon which gives the required rate of return.

One debate centres on the type of call attached to the bonds. In the US domestic markets, where callable bonds are very common, the typical structure has a once-only call at par, with the bonds becoming straight maturity paper if the call is not exercised.

The traditional European call option is renewed annually at a rate which declines towards the bonds' maturity date. This makes the bonds much harder to trade because the option means that there is uncertainty over the remaining life of the bonds – they effectively become renewable one-year securities.

Most of the recent issues have carried US-style options, and the commonest structure has been what traders call, "10-year non-call 3", that is a 10-year deal which has a once-only call after three years.

In practice, the investors pay little attention to the call because they are mainly interested in the coupon. However, several bankers express reservations about the price the investors receive for the option.

Over-supply at the 10-year 10½ per cent level last week meant that several lead managers abandoned plans to launch issues. Houses are known to have identified demand for even higher coupons and are expected to bring deals at 10¾ and 10⅞ per cent. The rate of issuing will slow down, but there is still plenty of demand for the right paper.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
FujikuraΦ♦	100	1993	4	4¼	100	Yamaichi Int. (Eur)	4.250
Mitsubishi Gas Chem.Φ♦	100	1993	4	4¼	100	Yamaichi Int. (Eur)	4.250
Nippon MiningΦ♦	500	1993	4	4⅛	100	Nikko Secs (Europe)	4.125
Keio Teito Elec.Rail.Φ♦	200	1993	4	4¼	100	Nomura Int.	4.250
Bqe Nat. de Paris(a)♦	100	1999	10	10⅛	102	Morgan Stanley	9.802
J.P. Morgan & Co.(b)♦	125	1999	10	10	102	J.P. Morgan Secs.	9.679
Sparekassen SDS♦	200	1994	5	9¾	101½	Nomura Int.	9.361
EDF♦	300	1999	10	9½	101½	J.P. Morgan Secs.	9.264
British Telecom(g)♦	200	2019	30	9⅝	99.85	Goldman Sachs	9.640
British Telecom(g)♦	300	1999	10	9⅜	99.78	Goldman Sachs	9.410
Eidensha Co.Φ	50	1993	4	(5⅛)	100	Nomura Int.	★
Bank of Greece(h)‡♦	250	1999	10	25bp	100	Bankers Trust Int.	-
Nichii Co.Φ	500	1993	4	(4½)	100	Nomura Int.	★
Banco di Napoli(HK)♦	50	1999	10	10⅛	102	Sumitomo Trust Int.	9.802
EIB♦	200	1999	10	9½	101⅝	Chase Investment Bk	9.244
Banque Paribas♦	100	1999	10	10⅛	102	Bqe Paribas Cap.Mkts	9.802
Burlington Resources§♦	82	2004	15	7	100	Morgan Stanley	7.000
Bank of Tokyo§	100	2004	15	(3⅞)	100	Bk of Tokyo Cap.Mkts	★
Union Bank of Finland♦	100	1999	10	10⅛	101⅞	Daiwa Europe	9.822
Kansai Paint Co.Φ	150	1993	4	(4⅝)	100	Yamaichi Int. (Eur)	★
Nippon Business Cons.Φ	100	1993	4	(4⅝)	100	Nomura Int.	★
CANADIAN DOLLARS							
Ford Credit Canada♦	125	1996	7	10⅞	101½	Goldman Sachs	10.581
Westpac Banking Corp.♦	100	1991	2	11½	101⅜	Merrill Lynch	10.700
Kredietbank Int. Fin.♦	100	1991	2	11½	101½	J.P. Morgan Secs.	10.628
GMAC Canada♦	100	1994	5	11	101⅞	Merrill Lynch	10.499
AUSTRALIAN DOLLARS							
Merrill Lynch♦	60	1991	2	16½	101⅞	Merrill Lynch	15.342
New S. Wales Treas.(i)♦	150	1995	6	12.10	90.90	Bain Securities	14.470
Swedish Export Cr.(j)♦	50	1990	1	18¼	101½	Bankers Trust Int.	16.503
Sweden♦	100	1994	5	15	102	Hambros Bank	14.412
Unilever Cap.Corp.(US)♦	75	1990	1	16¾	101¾	NatWest Cap. Mkts	14.742
NEW ZEALAND DOLLARS							
Bank of Nova Scotia♦	50	1992	3	13½	101¾	Fay, Richwhite	12.762
D-MARKS							
News Cayman (k)(m)§♦	175	1999	10	5	100	CSFB-Effectenbank	5.000
SWISS FRANCS							
Mitsui Toatsu Chem(c)§♦	200	1993	-	½	100	SBC	0.500
Taka-Q Co.(d)§☆☆♦	150	1994	-	½	100	SBC	0.500
Tokai Bank§☆☆	150	1994	-	(½)	100	Credit Suisse	★
Tokai Bank§	150	1994	-	(½)	100	Credit Suisse	★
Kommuninvest I Orebro♦	75	1996	-	5½	100½	Credit Suisse	5.412
Carter Holt Harvey§	(o)	1994	-	(5½)	(100)	S.G. Warburg Soditic	★
Seitetsu Kagaku§☆☆	80	1994	-	(½)	100	Nomura Bank (Switz)	★
Bank of Tokyo§	200	1994	-	(½)	100	UBS	★
Bank of Tokyo§☆☆	300	1994	-	(½)	100	UBS	★
STERLING							
SRF M'gage Notes No.1‡♦	150	2021	7.6	(e)	100	CSFB	-
Commerzbank Overseas♦	75	1994	5	10¾	101⅝	Samuel Montagu	10.318
News Cayman (k)(l)♦	150	1999	10	7⅝	100	CSFB	7.625
Redland Funding Plc♦	100	2014	25	10¾	101.383	BZW/Warburg Secs.	10.591
British & C'wealth♦	75	1996	7	10⅞	98¾	S.G. Warburg Secs.	11.142
ECUs							
Interfin. Cr.National♦	75	1994	5	8½	101¾	J.P. Morgan Secs.	8.061
IBM Int. Finance♦	100	1993	4	8¼	101⅝	Bqe Paribas Cap.Mkts	7.762
FRENCH FRANCS							
SAS♦	500	1999	10	9¼	101¼	BNP	9.055
GUILDERS							
News Cayman (k)(n)♦	100	1999	10	5⅛	100	CSFB Nederland	5.125
SWEDISH KRONER							
Nordic Investment Bank♦	500	1994	5	10	101¾	Svenska Int.	9.544
PESETAS							
World Bank♦	10bn	1994	5	11¾	101½	Deutsche Bk S.Espana	11.341
YEN							
Oest. Landerbank♦	5bn	1993	4	7½	101⅝	Salomon Brothers	7.020
Eurofima♦	20bn	1995	6	5	101⅜	Nomura Int.	4.731
Sparekassen SDS(f)♦	5bn	1993	4	5⅞	101⅝	Nippon Credit Int.	5.412
Christiania Bank♦	10bn	1993	4	0	84⅜	Nomura Int.	4.339
Instituto de Credito♦	9.55bn	1993	4	5⅛	101⅞	IBJ Int.	4.601
Okobank(f)☆☆♦	5bn	1993	4	9	101⅝	J.P. Morgan Secs.	8.504
Christiania Bank(p)♦	10bn	1993	4	4⅞	101⅝	Daiwa Europe	4.423
Bergen Bank(f)♦	5bn	1994	5	6	101⅞	IBJ Int.	5.560
Is.Ban.S.P. di Torino♦	5bn	1994	5	7⅛	101¾	Yamaichi Int. (Eur)	6.702
AUSTRIAN SCHILLINGS							
Austria(q)‡♦	8bn	1992/2001	(q)	⅛	100	Creditanstalt	-

ΦWith equity warrants. §Convertible. ‡Floating rate notes. ☆☆Private placement. ♦Final terms. ★Not yet priced. a) Call at par March 1992. b) Call after 3 years at par. c) Put option March 1991 at 103¼ to yield 2.017%. d) Put option August 1991 at 104⅝ to yield 2.196%. e) 20bp over 3-month Libor - increases to 50bp over Libor after 10 years. Expected average life 7.6 years. f) Redemption linked to Nikkei stock index. g) Launched on US domestic market. h) 25bp over 6-month Libor increases to 37½bp after 5 years. i) Exchangeable into identical domestic issue - priced net of negative interest. j) Borrower has option to repay in either A$ or US$. k) Convertible into shares of Pearson Plc or cash alternative. l) Convertible preference shares. Put option 1994 to yield 11¼%. m) Put option 1994 to yield 7¾%. n) Convertible preference shares. Put option 1994 to yield 8%. (o) Issue amount depends on success of exchange offers. Indicated redemption at 102½ if not converted to yield 6.025%. p) Linked to 10-year US Treasury and Yen/$ exchange rate. q) ⅛ over 3-month Vibor, pays annually, refixed every 3-years to 2001. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Blurred view of light at tunnel's end

THE GILT-EDGED securities market spent a large part of last week rubbing its eyes to see if there was really light at the end of the tunnel.

Two signals might have suggested that recent optimism about high interest rates slowing the economy should have been tempered. But dealers remained undeterred. Neither the upward revision in December's retail sales figures or the Bank of England's Quarterly bulletin, urging caution and patience, appeared to undermine confidence.

Yields on both long and gilts were almost unchanged by the end of the week with most analysts continuing to argue that the economic indicators were consistent with a pronounced deceleration.

That confidence has largely been brought about by the scale of Bank of England buying, with the stock shortage forcing people to take a long-term view. Last week the risk was seen as being left without stock as interest rates begin to fall later this year, rather than holding stock with base rates going higher.

Figures for the public sector borrowing requirement in January, the height of the corporate tax paying season, are published on Thursday and are likely to show a surplus of £8bn or more – highlighting the size of the shortage.

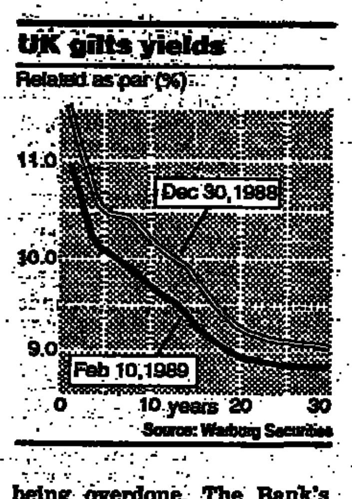
There remains a danger, however, of the optimism being overdone. The Bank's bulletin provided a useful reminder that interest rates take time to work and that the full effects are unpredictable.

The Bank is still looking for a turning point and does not have the same confidence as the Treasury that tight monetary policy is working as expected. It sees the evidence of a slowdown so far as no more than a gleam at the end of the tunnel.

The bulletin emphasises the importance of time lags with the main effects of the sharp rise in interest rates in the second half of last year expected to become apparent in three to six months. Only if events turn out as foreseen – and in economics the unpredictable has always to be expected – will base rates be able to fall.

This week starts the final round of major economic statistics before the Budget. Today's retail sales figures, if in line with the latest Confederation of British Industry/Financial Times survey, could bring some cheer. However the threats of possible revisions and distortions caused by unseasonally mild weather are likely to temper enthusiasm.

Similarly, Thursday's average earnings figure is unlikely to give a clear picture. In the last two months it has been affected by large public sector settlements from the previous year dropping out of the annual growth rates.



* * *

The Bank of England has finally given its imprimatur to what the gilts market has known for some time: the Government will probably produce "significant" Budget surpluses for several years.

The likelihood is that the Bank will have to step up its official operations in the market and it has been giving some thought to the way it does it.

It is likely, therefore that, after next month's Budget, it will approach the market for its thoughts on the use of reverse auctions further along the yield curve. The obvious question here is the extent to which operations of this sort might distort the curve.

The need for the Bank to consult the market is underlined by Warburg Securities' analysis of data in the Bulletin which suggests that the Bank bought in, net of redemptions, about £2.2bn of stock in the third quarter of the 1988-89 financial year. Purchases have been weighted heavily towards to the long end of the market.

Relating total purchases so far to the nominal value of the market at March 31 1988 suggests that the Bank has bought back 1 per cent of stocks in the one to five year area; 2 per cent of the stock in the five to 15 year area; and, 8 per cent of stocks with more than 15 years to maturity.

The Bank gave clear pointers to its policy of buying-in in its extended analysis of the gilts market two years after Big Bang. It will respond to offers of stock made to it, rather than chasing it, and it will adjust prices in line with the market.

What gave some in the market cause to raise a wary eyebrow was its comment that it would ensure it did not operate at a loss. This to some meant that the Bank would structure its dealings to operate at a profit, that is at the market's expense.

Ralph Atkins and Simon Holberton

US MONEY AND CREDIT

Return to reality routs US bonds

OUCH, what a week for the US bond market. With every prop kicked out from under it, the New Year's rally collapsed in a flurry of falling prices and rising interest rates.

The dollar tumbled, the Bush budget bombed, inflation flared, the Federal Reserve muddled, investors disappeared, and the Treasury auction fizzled. "All the optimism is gone in one fell swoop," said Mr Bob Brusca, chief New York analyst for Nikko Securities.

Reawakening to the reality of deficits, inflation, troublesome currencies and political inertia, the market knocked more than two points off long bond prices and pushed up short term rates as much as 25 basis points.

Banks raised prime rates to 11 per cent from 10.5 per cent, the fifth increase in 12 months. For President Bush, it was an abrupt end to the honeymoon.

"A market which had brushed off bad news and remained unduly strong for a number of weeks, focused once again on fundamentals," one economist said.

"It was not a pleasant experience."

The causes of the rout were clear enough except for one small mystery.

Why had the Fed not tightened monetary policy as widely expected? The question is slightly academic because it is likely to do so this week.

But most guessed the Fed had wanted to keep money relatively easy in case depositors reacted badly to the thrift rescue plan unveiled during the week and while the buy-out of RJR Nabisco was completed.

A strong dollar was a further inhibitor. Nonetheless, the Fed might still wait until it can co-ordinate a rise in rates with at least the West Germans to minimise the currency impact.

Uncomfortably for the markets, though, the Fed turned a small mystery into an awkward problem.

Nobody was sure whether it had raised the Fed funds rate because its market actions were hard to interpret. The Fed badly misjudged how big a seasonal surplus of reserves it had to drain from the market. A nasty glitch in the banking system compounded the problem.

"The Fed did not distinguish itself last week in its open market operations," said Griggs and Santow, the firm of money market economists. "This is the exception to the rule but the timing could not have been worse coming in a major refunding period where the players need to have a clear idea of the Fed Funds rate."

The Treasury's quarterly refunding auctions had actually got off to a strong start on Tuesday with the sale of $9.76bn of 3-year notes. Small investors piled in, placing a record $1.75bn of non-competitive bids.

Institutional demand was also strong with the Japanese taking about one-third of the notes. They were all attracted by the briefly inverted yield curve which left the notes paying more interest than 30-year bonds.

The next day's sale of 10-year notes was far shakier. Foreign demand fell as the dollar began to crumble out of concern President Bush would do little to cut the deficit.

Some foreign exchange players were also cautious because members of the Group of Seven started saying different things after their meeting the previous weekend.

Some countries seemed more interested in fighting inflation, others in stabilising currencies.

Problems peaked on Thursday during the sale of 30-year bonds.

The dollar fell Y1.20 and almost two pfennigs, its worst one-day fall in months, amid growing certainty President Bush would unveil a disappointing budget that night. Investors placed only $17.1bn of bids for the bonds - just 1.8 times the volume offered against the usual 2.4 times.

To find buyers for the bonds, the Treasury had to dip well down the list of bidders. Some dealers unexpectedly found themselves less-than-proud holders of the bonds and a big sell-off swept through the market, leaving dealers large paper losses.

Fresh trouble brewed on Friday. Prices fell again on news that the producer price index had jumped 1 per cent in January, its biggest monthly rise since 1981.

On one hand the index was bumped up by volatile energy and food prices, but on the other it included nasty gains such as 0.6 per cent in capital goods and 3.9 per cent in crude prices.

These will soon flow through to manufacturer and consumer prices.

"There is nothing good about these numbers," said Griggs and Santow. "There is a momentum to the rise in the PPI that will continue to push the overall index higher." Some economists are beginning to up their forecasts of consumer price inflation to more like 6 per cent this year than 5 per cent.

The markets also spent Friday digesting President Bush's State of the Union Address and budget proposals. Unfortunately they had indulged in a lot of wishful thinking beforehand so the actual uninspiring details of the budget looked even worse.

Salomon Brothers' economists said over the weekend the optimism "has given way to a more sober assessment."

President Bush has shifted spending back to the current year's budget because its deficit is past history in congressional terms.

The deficit could be as high as $170bn against $155bn last year. The President thinks he can hit the mandated deficit target of $100m for the 1990 fiscal year beginning this October. But many economists estimate it will turn out closer to $135bn.

Mr Bush's calls for bipartisan co-operation were soon drowned out by the first hostile shots from the Democrats. Budget negotiations are likely to drag on to the very start of the new fiscal year with little achieved in concrete.

Griggs and Santow said: "Look for a protracted battle with no reason to believe the deficit will be reduced very much in the end."

The other deficit - the trade shortfall - could also return to the markets' agenda.

This Friday's trade figures for December are likely to show another gap of around $12bn, indicating that the US's trade performance has stopped improving.

Other data this week such as retail sales and industrial production will reinforce the picture of robust economic growth.

Coupled with a probable Fed tightening, a dicey dollar and aftershocks from last week, dealers and investors could be further bloodied in coming days.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.06	9.00	9.08	9.20	6.27
Three-month Treasury bills	8.86	8.47	8.48	8.52	6.21
Six-month Treasury bills	9.05	8.62	8.78	9.05	5.73
Three-month prime CDs	9.45	9.30	9.25	9.45	6.77
30-day Commercial Paper	9.15	9.05	9.00	9.45	6.65
90-day Commercial Paper	9.30	9.10	9.05	9.30	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100⅜	-1½	9.22	9.04	9.10
20-year Treasury	102⅜	-1⅜	9.12	8.91	8.97
30-year Treasury	99[illegible]	-2⅛	9.04	8.83	8.88

Source: Salomon Bros (estimates).

Money supply: In the week ended January 30 M1 rose by $900m to $787.1bn

NRI TOKYO BOND INDEX

December 1983 = 100	9/2/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	148.49	4.63	148.67	147.38	142.93
Government Bonds	149.21	4.34	149.41	148.63	142.68
Municipal Bonds	150.69	4.87	150.95	148.92	146.99
Govt.-guaranteed Bonds	151.85	4.91	152.09	149.92	146.99
Bank Debentures	141.51	4.61	141.65	140.58	137.19
Corporate Bonds	148.62	5.39	148.67	146.37	144.20
Yen-denom. Foreign Bonds	152.75	6.10	152.56	149.73	146.68
Government 10-year†	4.88	-	4.87	4.86	5.31

(Columns 9/2/89, Last week, 12 wks ago and 26 wks ago under PERFORMANCE INDEX)

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS / FLOATING RATE NOTES / CONVERTIBLES				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6¼ 93	20.0BN	104¼	0	5.51
AVON CAPITAL 6¼ 97	26.0BN	101	0	6.34
BARCLAYS O/S INV 6 96	40.0BN	105	-⅛	5.17
B.F.C.E. 5¾ 96	20.0BN	103¼	0	5.20
CANADIAN PACIFIC 6¼ 96	10.0BN	107½	0	5.43
DENMARK 6¼ 92	20.0BN	105¼	0	4.75
EIB 4¾ 92	30.0BN	99¾	0	4.95
EIB 4⅝ 94	40.0BN	98¾	+⅛	4.99
EUROFINA 6½ 95	15.0BN	105	0	5.57
F.N.M.A. 6⅞ 92	50.0BN	105⅛	0	4.92
GMAC 6½ 90	25.0BN	101⅞	-⅛	5.00
IBM CREDIT CORP 5¾ 92	18.0BN	101¼	0	4.87
ITT 6¼ 92	20.0BN	103¼	0	5.35
MCDONALDS CORP 6½ 92	25.0BN	103⅞	0	5.06
NEW ZEALAND 7⅛ 90	15.0BN	105⅞	-⅛	3.63
NEW ZEALAND 7⅝ 89	15.0BN	101⅛	-⅜	5.57
NORWAY 5½ 95	50.0BN	100½	0	5.02
PENNEY J.C. 6¼ 92	26.0BN	103½	0	5.47
PHILIP MORRIS 6½ 91	20.0BN	101⅞	0	5.49
SALLIE MAE 6⅝ 92	25.0BN	104½	0	4.93
TRW INC 7 94	15.0BN	102	0	6.58
WORLD BANK 7⅛ 93	20.0BN	110⅞	-⅛	5.02
WORLD BANK 8 93	20.0BN	110⅞	-⅛	4.98

LUXFR STRAIGHTS	Issued	Bid price	Chg on week	Yield
COPENHAGEN TEL 8¼ 89	500	99⅞	0	11.41
COUNCIL EUROPE 7 94	600	98½	-½	7.37
GALVALANGE 7 95	600	97⅞	0	7.48
KLEINWORT BENSON 7 94	600	97⅞	0	7.50
WORLD BANK 8 96	1.0BN	102½	0	7.53

GUILDER STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 5¾ 91	100	97⅞	-⅛	6.65
A.B.N. 7¼ 89	150	100⅛	0	7.12
AMRO BANK 7¼ 89	150	100⅛	-⅛	7.12
BEATRICE FOODS 8¼ 89	100	100	-⅛	8.06
DENMARK 8½ 91	100	102¾	-⅜	7.11
INT.STAND.ELEC 8½ 89	100	100	0	8.15
NED MIDDENSTAND 6 92	150	97⅛	-1⅛	6.95
OSTER KONTROLLBANK 7 90	100	100⅛	+⅛	6.82
RABOBANK 8 89	150	100	0	7.74
WORLD BANK 6¼ 93	100	98¼	-1⅛	6.90

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.I.D.C. 10 91	100	97	-⅛	11.64
AUST.RESOURCES 11⅝ 92	50	99¼	-⅛	11.72
BK MONTREAL REALTY 9½ 96	100	93⅛	-⅜	10.81
BANQUE INDOSUEZ 14 91	75	104½	-⅛	11.74
BR.COL.PROV 12¼ 91	100	101⅝	-⅛	11.52
BR.COL.PROV 13½ 91	100	103⅛	-⅛	11.60
DENMARK 11⅝ 91	100	100	-⅛	11.60
FARM CRED CORP 12¼ 90	75	100⅛	-⅛	11.70
KELLOGG SALADA CANADA 9 92	50	95	0	11.08
LAVAL CITY 10⅛ 96	40	95⅞	-⅜	11.62
MONTREAL TRUSTCO 8½ 92	100	93⅛	-⅜	11.13
NEW BRUNSWICK 12 95	75	103⅛	-⅜	11.26
NOVA SCOTIA 11⅝ 95	100	101⅝	-1	11.24
ROYAL TRUSTCO 10⅝ 90	75	97⅞	-⅛	11.69

ECU STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALL NIPPON AIRWAYS 9 95	130	101⅛	-⅛	8.74
ANZ BANKING 10¼ 91	50	103⅛	-⅛	8.70
AUSTRIA 7⅝ 93	125	96⅛	-½	8.33
B.F.C.E. 8⅝ 93	150	100	-⅛	8.62
B.F.C.E. 9¾ 92	100	103⅛	-½	8.50
B.N.P. 8⅞ 95	75	101⅛	-⅛	8.50
CAISSE NAT TELECOMM 9¾ 92	75	103⅛	-⅛	8.40
CHRYSLER FIN 9 92	75	99⅞	-⅛	9.18
C.N.A. 7¾ 95	120	95⅜	-⅜	8.34
CREDIT FONCIER 7⅝ 94	390	96⅞	-⅜	8.39
CREDIT LYONNAIS 6⅞ 92	175	94¼	-⅜	8.37
CREDITANSTALT 8⅞ 94	67	100⅛	-½	8.69
DENMARK 7⅝ 96	250	95⅜	-½	8.45
E.E.C. 11¼ 91	50	105	-½	8.77
EIB 7½ 96	150	95⅜	-⅛	8.37
EIB 10⅛ 94	130	105⅛	-⅛	8.75
ELEC DE FRANCE 7⅛ 98	100	93⅛	-⅜	8.18
EURATOM 7⅝ 96	100	94⅛	-⅛	8.45
EUROFIMA 7⅝ 95	165	98½	-1⅛	8.01
FINNISH EXPORT 7⅞ 92	100	97	-⅛	8.49
GILLETTE CO 7½ 93	55	95⅛	-⅛	8.81
IBM WORLD TRADE 8¼ 90	150	100⅜	+⅛	7.94
IND BK JAPAN FIN 8⅝ 93	100	98⅜	-⅛	8.78
INTER AMER DEV 10 93	100	104⅛	-⅜	8.72
ITALY 9⅛ 89	200	100	0	9.04
MOET-HENNESSY 9 91	50	100⅜	-⅛	8.81
MORGAN GTY TST 8½ 90	100	99⅞	0	8.56
NEW ZEALAND 9½ 92	100	102¼	-⅛	8.66
PARBEL FINANCE 8⅝ 89	50	99⅝	-⅛	9.27
REYNOLDS R.J. 8⅝ 91	125	96⅛	0	10.29
SEC PACIFIC AUST 8¼ 90	100	99⅛	-⅛	8.88
SUMITOMO FIN 9 93	75	101⅛	-⅛	8.69
VICTORIAN PUB AUTH 8⅞ 90	75	100⅛	+⅛	8.71
WORLD BANK 7½ 94	150	96⅝	-⅛	8.28

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
BMW FINANCE 14½ 92	100	95⅛	-1½	16.52
DEUTSCHE BK FIN 12½ 91	75	93½	-⅛	16.11
GMAC AUSTRALIA 14¼ 91	60	96⅝	-⅛	16.21
WESTPAC BANKING 12¼ 90	50	93⅞	-½	17.45

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
B.N.P. 9⅝ 93	75	96⅛	-⅛	10.85
BARCLAYS JERSEY 9½ 93	250	95⅝	0	10.85
BRITISH OXYGEN 11⅞ 91	50	99⅞	+⅛	11.79
DENMARK 10¼ 89	75	99¼	0	15.56
E.E.C. 11⅛ 94	50	101⅝	+⅛	10.94
EMHART CORP 11 92	35	97½	+⅜	11.97
HALIFAX B.S. 9⅝ 93	100	94⅝	0	11.19
INTER AMER DEV 11⅛ 95	75	102⅛	-⅛	10.79
IRELAND 11⅛ 94	50	100⅛	+⅛	11.25
KREDIETBK INTL 10⅝ 92	50	98⅛	-⅛	11.44
LAND SECS 9½ 07	200	89⅛	+⅛	10.89
LEEDS PERMANENT 9¼ 93	50	93¼	-⅛	11.27
MITSUBISHI FINKHIO 11 90	50	99⅞	0	11.42
SAINSBURY 10⅞ 93	60	99½	-⅛	11.01
WORLD BANK 10⅛ 89	100	99⅛	-⅛	14.34
WORLD BANK 11¼ 95	100	102⅞	0	10.57

EQUITY WARRANTS	Expiry Date	Bid price	Chg on week	Prem
CASIO COMPUTER	06/03/89	51½	-4	-3.12
DOWA MINING	20/07/90	43½	+1½	10.42
FUJITA CORPN	09/09/91	127¼	+77¼	13.57
FUJITSU	31/01/92	78¼	-4	2.49
GUNZE	07/05/92	53¼	-4¼	4.88
KIRIN BREWERY	23/07/92	16½	-⅜	25.18
MINEBEA CO	22/05/91	98	0	-3.50
NIPPON MEAT PACKERS	17/09/92	18¼	-1	29.20
SEKISUI HOUSE	28/10/91	60⅛	-⅛	0.22
SONOIKE MFG	12/09/91	49⅛	-2¼	-2.66
SONY CORP	26/04/90	127⅞	+5¼	1.86
TOYOTA MOTOR	15/07/92	45⅝	+3⅞	-26.69
UNY	17/06/91	41⅛	-2	8.76

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON 9 92	24/09/92	7	0	8.72
AVON CAPITAL 9 93	09/04/89	0¼	0	8.98
B.F.C.E. 9¼ 96	16/12/90	105	0	9.65
CHRYSLER FIN 10⅛ 94	02/03/94	31	0	9.57
DEN NORSKE CREDIT 8 94	02/03/90	1	0	7.97
DENMARK 12¼ 92	31/01/90	55	0	10.48
GEN ELEC CRED 9½ 92 B	17/12/92	8½	0	9.21
GMAC 8¼ 95 B	11/02/91	11	0	8.51
HEINZ H.J. 7½ 96	01/10/90	4	0	7.42
NORDIC INV BANK 7⅞ 96	30/10/91	2½	0	7.82
NORDIC INV BANK 8⅝ 96	27/03/91	3	0	8.30
ROYAL BK CANADA	28/01/90	50	0	10.45
SBC FINANCE 10¼ 90	11/01/90	0⅝	-⅛	10.12

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on FEBRUARY 11

PaineWebber plans big spin-off

By Roderick Oram in New York

A GROUP of investment bankers specialising in transportation companies is to spin itself off from PaineWebber which in common with some other Wall Street securities firms is suffering from a talent drain and slack retail business.

Consisting of some 30 investment bankers led by Mr Joseph Steuert, the group has offered one of the few services that distinguishes PaineWebber from the pack of mid-sized financial houses.

Last year it did 50 deals worth $3bn including helping a group of investors buy Braniff, the struggling US airline, from the Pritzker family of Chicago.

The investment bankers will call themselves the Transportation Group and will have offices in New York, London, Tokyo and Hong Kong.

PaineWebber, which will not compete against them in the airline sector, will provide 32 per cent of the company's $10m of equity start-up capital and help, for example, placing issues for the group.

Mr Steuert, 42, first formed the group at E.F. Hutton in 1981 before moving it to PaineWebber in 1984. It grew to represent about one-seventh of the staff and one-fifth of the revenues of PaineWebber's corporate finance department.

To try to revive its retail business, PaineWebber last week appointed Mr Jerome Lichtstein to the new post of senior vice president, retail sales and strategic services. He was previously senior executive vice president in the domestic branch system of Shearson Lehman Hutton.

The firm recently reported fourth quarter net profits of only $512,000 against $7m, or 16 cents a year earlier. The latest income, which was too small to cover preferred stock dividends, included an $8m charge as part of the settlement of claims arising from bond defaults by the Washington Public Power Supply System and $5m for relocation fees.

WPPSS and relocation charges totalled $40m for the year, reducing net profits to $42.4m, or 58 cents, on revenues of $2.51bn, from $72.7m, or $2.17, on $2.44bn a year earlier.

The firm said better results from merchant banking, asset management and principal transaction partially offset steep declines in retail and institutional trading volume.

Norway to reopen bond trade to foreigners

By Karen Fossli

NORWAY'S bond market could this year be reopened to foreigners after five-years of closure.

Mr Hermod Skaanland, the governor of the central bank, said in London that a high level report is likely to recommend the dismantling of foreign exchange restrictions and an end to the ban on foreign access to Norwegian bonds.

"I think it's fair to say that further liberalisation will come in preparation for 1992," Mr Skaanland suggested.

The recommendations will come from the so-called Kleppe Committee which was formed last year by Norway's minority Labour government to investigate Norway's financial sector.

The Committee will reveal its findings on Wednesday. They will be scrutinised by a hearing before final proposals to the Storting (Norway's parliament) are made.

Norway closed its bond market to foreigners in 1984 when an attempt at deregulation by the authorities led to a sharp upsurge in new bond issues and a jump in local interest rates to around 15 per cent.

Co op seeks to reshape foreign side

By Haig Simonian in Frankfurt

CO OP, the troubled West German food retailer which is now controlled by a group of foreign and domestic banks, may have unravelled an essential part of its complicated foreign ownership structure.

The group has acquired Burlington, a Cayman Islands-registered company which in turn controls Garvey Holding, the Swiss registered group responsible for all Co op's overseas activities.

Co op indicated its intention of consolidating Garvey into the parent company soon after its restructuring last December following highly damaging revelations about its performance and shareholder structure.

However, gaining control of Garvey was expected to be very complex, in view of its unclear ownership structure and the possible involvement in it of Co op's three former directors, all of whom were summarily dismissed in December.

Untangling the complex web of subsidiaries has been seen as an essential step in restoring confidence at Co op. The company's statement announcing the acquisition of Burlington was terse: Co op has not said how it has won control of the company; how much the acquisition cost; or what role may have been played by the three former directors.

CBOT heads for screen trading

By Deborah Hargreaves in Chicago

THE CHICAGO Board of Trade is ready to move ahead with the development of an electronic trading system for processing futures trades when its Chicago floor is closed, the exchange revealed last week.

In a complete reversal of its previous position on screen trading, the CBOT says it will schedule a membership vote in the next two weeks on whether to pursue the development of an electronic system. In the past, the CBOT has been strongly critical of a move in the futures industry towards black box trading.

In a harshly-worded criticism of Globex, an electronic system under development by its rival Chicago Mercantile Exchange, the CBOT said screen trading was open to price manipulation and trading abuse.

But electronic trading has been under discussion at the CBOT for some time, according to exchange sources.

The CBOT is looking at an electronic system that is similar to the one under development by the London International Financial Futures Exchange and which simulates pit trading on screen. The exchange says it does not know how long it will take to develop or how much it will cost.

The CBOT system would initially list several of its busy financial contracts with trading hours running from midnight to 6am.

The exchange has already introduced an evening open outcry session, from 6pm to 9pm, to attract business in the Far East.

Bancaire to raise $188m

By George Graham in Paris

COMPAGNIE Bancaire, the French financial services group, is to raise FFr1.18bn ($187.8m) in a rights issue, on the back of a 20 per cent increase in profits last year.

The group, whose activities include leasing, consumer credit and direct mail insurance, reported consolidated net profits, excluding minorities, of FFr1.049bn in 1988.

Net operating profits rose 20 per cent to FFr847m, and the company added a further FFr100m from exceptional capital gains, and FFr102m from the retrieval of tax provisions, following the cut in French corporation tax rates from 45 per cent to 39 per cent between 1987 and 1989.

Credit subsidiaries of the group increased their volume of loans by 17 per cent, to reach FFr68.4bn of new lending in 1988. Foreign subsidiaries increased their volume of lending by 150 per cent. Total loans outstanding rose 15 per cent to FFr147bn, with the effects of early repayments, which affected the group severely in 1987, much reduced.

Compagnie Bancaire, whose principal shareholder is the Paribas investment banking group, also announced a one for five rights issue.

The group issued $200m of subordinated perpetual paper last summer, but doubts have arisen over whether it will be possible to treat this as primary tier capital for the purposes of the new prudential ratios to be imposed following the recommendations of the Cooke Committee of the Bank for International Settlements.

ABC registers $142m profit

ARAB BANKING Corp, Bahrain's largest off-shore banking operation, achieved a pre-tax profit of $142m for 1988, against previous losses of $203m, AP-DJ reports.

ABC said total operating profit last year was $239m before taxes and provisions for doubtful loans. Total revenues were $527m.

Chief executive officer, Abdulla Saudi, said that the operating profit was reduced in 1988 by charges for doubtful loans totalling $79m. ABC had taken charges totalling $375m against its 1987 earnings to cover loan provisions, the largest among any bank in the region.

The ABC board of directors will be asked to approve a 5 per cent dividend for 1988. ABC suspended its dividend in 1987.

Elkem returns to black after restructuring

By Our Financial Staff

ELKEM, one of Europe's leading light metals producers, has returned to profit for 1988, helped by strong metal prices and a major restructuring.

Profits for 1988 were NKr659m before extraordinary items compared to a loss of NKr147m in 1987. Group turnover for last year was NKr9.57bn (NKr7.59bn).

Elkem said prices for aluminium and ferro-alloys in particular had been very strong.

It added that its cost-cutting programme, which includes reducing costs by NKr500m and cutting staff by 1,500 to around 6,500 by next year, was on schedule.

Kitchen group seeks out successful buy-out recipe

David Waller on the issues of principal raised by Magnet chairman's attempt to buy the group

MR Tom Duxbury, chairman of Magnet the Keighley-based fitted kitchen and do-it-yourself retailing company, conceded last week "it would be helpful" for his buy-out plans if he and his boardroom colleagues owned 50 per cent or more of its shares.

It would also be helpful for a number of merchant banks, City institutions and senior businessmen wrestling with the issues of principle raised by the possible buy-out. If successful, it would be worth more than £500m and be the biggest to date in a series of such deals on the UK stock-market.

The problem is that Mr Duxbury and his fellow directors own a mere 1 per cent of the group, which in recent years has pursued an ambitious strategy of turning itself into a retailer at the expense of its traditional role as a supplier to the building trade.

By contrast, the management teams which made successful bids for Dwek Group, Invergordon Distillers and Virgin Group, all had controlling stakes to start off with.

Thus the outcome of these bids was largely a matter of formality. The position with Magnet is, of course, rather different.

The fate of the company will be determined by the multitude of shareholders, both City institutions and individuals, who own 99 per cent of the company. How will these shareholders make up their minds?

In normal circumstances, the best judge of whether or not a bid reflects the present and future value of a company, is the market, as reflected in a share price. The next best is the view of the board, but this is clearly impossible in the case of a boardroom buy-out and the responsibility for recommending a bid devolves to the company's financial advisers and non-executive directors.

Those with this headache: are Kleinwort Benson, financial adviser to Magnet (the company, as opposed to its board), and Mr John Haggas and Mr David Malpass, Magnet's two non-executive directors. These two are respectively, chairman of the John Haggas textile group and chief executive of Tesco.

Shareholders, particularly institutional shareholders, will not allow themselves to guided wholly by the say-so of a board, a merchant bank or even two distinguished businessmen. Hard cash is usually the most convincing argument.

The trouble with Magnet is that it is a unique stock market animal, part manufacturer and part retailer, at a crucial stage in its reorientation as a retailer. It has never been particularly well-understood by the City and there has never been any consensus on the kind of profits it could produce.

This has led to many ups and downs in the share price in the four years since Mr Duxbury has been at the helm, as the market veered from uncritical enthusiasm for his strategy at one extreme and disillusionment at the other.

Magnet has been in something of a trough over recent months, so far as City sentiment is concerned. Until Mr Duxbury's announcement, the shares had underperformed by 40 per cent relative to the market since its pre-crash peak. Mr Duxbury has always bewailed the fact that a company where pre-tax profits have risen from £28.2m in 1984-85 to £53.7m in 1988 has been so poorly rated.

Thus the key thing that Kleinwort, the two non-executive directors, and the 99 per cent of shareholders not participating in the bid, need before they recommend or accept any offer from Mr Duxbury, is *information* – information on Magnet which would help everyone judge whether it was Mr Duxbury or the market who had the right measure of Magnet's prospects.

Just how much information should come out into the open has been the subject of some dispute in recent days, with both parties writing for clarification to the Takeover Panel, the City watchdog on takeovers and mergers. Management has access to the virtually unlimited amount of data needed to run the business and plan for future growth. The institutions know that City analysts are forecasting £72m for current year profits, £87m for the year to March 1990 – and little else. Between these two extremes, what should Kleinwort be told?

Rule 19.4 of the Takeover Code deals with the general principle but not designed with this sort of situation in mind: "Any information . . . given to a preferred offeror or potential offer . . . must on request be furnished equally and as promptly to a less welcome but *bona fide* offeror or potential offeror." And one of the code's general principles is that: "No relevant information should be withheld" from shareholders.

Bankers Trust International, financial adviser to Mr Duxbury and his team, is happy to make generally available what it considers straightforward factual information: a profits forecast to the end of the current year (which has nearly finished in any case), an auditors' report on those figures, and a revised property revaluation.

Kleinwort wants to get hold of everything that Bankers Trust knows. What precisely this is, is not known: but it is likely that Bankers Trust has seen the sort of detailed business plan, coupled with cash flow and profit projections

Under the watchful eye of the Takeover Panel, the two sides have been squabbling over how much should be disclosed.

The panel has refused to comment on how it deemed that the matter should be resolved: but it is thought that it urged that shareholders generally should be given the same information that is given out by Bankers Trust to other banks when inducing them to join the financing syndicates.

Such information – which could give clues as to the management's views on the likely worth of the company over the years to come, and whether a reflotation is planned – can often be found in loan covenants between those conducting the buy-out and their bankers.

One fund manager last week expressed indignation that such information could only be obtained by a time-consuming visit to a firm of solicitors.

CONSTRUCTION CONTRACTS

National Gallery services

CROWN HOUSE ENGINEERING has been awarded seven contracts totalling £16m.

For the Sainsbury Wing, at the National Gallery, the company has been awarded a £3.1m contract for the mechanical and electrical services. This includes fire protection and environmental and lighting systems for major new gallery rooms.

At Broadgate in the City a £1m contract at Baring Investment Management's new offices involves installation of heating, ventilation and air conditioning.

Two retail sector developments on the outskirts of London are a £5m mechanical package for Phase I of the Bentall Centre in Kingston-upon-Thames and a £1.7m electrical package in the Park Plaza leisure complex being developed by the Carroll Group in Hatfield.

A further contract at the MetroCentre in Gateshead costing £600,000 is at the Granada Bowling Alley. Mechanical and electrical services will be for the 27 bowling lanes, bar, restaurant and cafeteria facilities.

Shopping Centre

Work has begun on a £2.4m mechanical and electrical services package at another shopping development, the Howgate Centre at Falkirk, in Scotland. The centre consists of a shopping mall, five-storey high atrium and three levels of underground car parking.

Finally, work starts shortly on a ward block at Singleton Hospital in Swansea in a £2.2m contract awarded by Fairclough for ventilation, heating, domestic services and fire alarms.

More orders for civil engineering

By Andrew Taylor, Construction Correspondent

CIVIL ENGINEERING orders are continuing to rise, but more slowly than during last year, according to a survey published today by the Federation of Civil Engineering Contractors.

The federation asked 180 civil engineers last month whether order books were higher than 12 months ago. It also wanted to know what their expectations were for future orders, and whether contracts were being delayed by labour or material shortages.

More than half the companies said order books were higher than 12 months ago; 28 per cent said order books had fallen and 19 per cent said orders had remained at about the same level.

Just under half of the companies also said that orders were higher than six months ago. Just under a third expected to see a further rise in orders this year. Only 9 per cent expected orders to fall this year, the remainder expected order books to remain at around their current level.

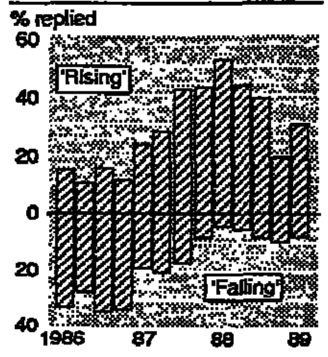
Mr Ron Emery, director general of the federation, said: "The expectations of our members reflect slightly more optimism than was evident last October. More now feel that the rising trend may continue."

One reason for this was the Government's more positive pronouncements about investment in infrastructure, said Mr Emery.

He said larger companies tended to be less optimistic about order prospects.

Some had been hit by the government's moratorium on major new roadworks contracts last summer and this had caused them to view with caution Government proposals to increase investment in motorway and trunk roads in 1989 and 1990.

Expectations for New Work



Kyle Stewart to build £30m hypermarket

KYLE STEWART has been awarded contracts totalling over £70m.

Work has started on a £30m order for a joint Marks & Spencer and Tesco development in Sandhurst, Berkshire. It comprises two stores, each of 100,000 sq ft, linked by an eight metre atrium, with a restaurant on ground level. There will be parking for 2,200 vehicles. There will be 1 km of associated roadworks, and a roundabout for access to the A30. Completion is scheduled for February 1990.

The Property Services Agency has awarded the company a £10.5m contract to design and build a Crown Court in Harrow, Middlesex. The four-storey building will provide eight courts and rooms for judges, jury, public and defendants. The concrete-framed building will be clad with a combination of brickwork, reconstituted stone, curtain walling and leadwork. Completion is planned for March 1991.

Research laboratories are being built for London underground under a £2.9m contract. The project comprises two single-storey wings either side of a central multi-storey block, plus an ancillary single-storey building. Work starts in April.

Stewart-Usborne Developments, a joint venture between the Kyle Stewart Group and Usborne Developments, is to undertake redevelopment of 2.7 acres at Munster Road, Fulham, in association with the Finnish bank Kansallis-Osake-Pankki. The £27m scheme will include business units totalling 75,000 sq ft, with on-site parking, together with 42 courtyard residential units with secure underground parking. Marketing begins in the spring of 1990.

Road improvement orders for Tarmac

Three road schemes and large scale building projects feature in contracts worth about £37m awarded to TARMAC CONSTRUCTION. The largest, at £8.8m, is for eight kilometres of dual carriageway on the A30 between Launceston and Plusha in Cornwall.

It involves building two km of single carriageway alongside the existing road, which will be retained for eastbound traffic, and building about 6.5 km of dual two-lane carriageway.

Included are six junctions, one interchange, two bridges, street lighting and road signs. Work, for the Department of Transport, has started and is due for completion in the summer of 1990.

At Huntingdon the company has a £5.7m contract for reconstructing 4.8 km of the town's by-pass, for the Department of Transport. Work is scheduled for completion in about six months.

In Middlesbrough work has started on a £5.4m contract for building a bridge and approach roads at the Woodside Street by-pass, for Cleveland County Council. It is due for completion in the summer of 1990.

Building projects include a £5.6m contract for designing and building offices, together with ancillary works, in Chester Road, Coleshill, Birmingham, for the Birmingham Business Park Partnership, and a £2m contract for seven-storey offices in Fountain Street, Manchester, for Whitecroft Developments.

Tarmac Construction's contract housing division has also been awarded a number of contracts. They include work on local authority homes at Sheffield, where the division has two contracts valued at £2.9m and £717,000; Wolverhampton (£1.7m); Coventry (£1.3m); Leeds (£744,000); and South Derbyshire (£556,000).

Tarmac Refurb has a £1.1m contract for refurbishing premises in Colmore Circus, Birmingham, for the National Westminster Bank.

Spread of work for hotel refurbishment specialist

TFL, the hotel turnkey design and management services division of Dean and Bowes, has won contracts totalling about £7m.

The contracts include the following: a £3m refurbishment of bedrooms and corridors in Metropole Hotels located in Birmingham, Blackpool, Brighton and London; £1.75m for the conversion of a Gloucestershire 50-bedroom mansion into the Cheltenham Park Hotel, and the fitting-out of a 100 bedroom conference centre; £1m for the refurbishment of 100 bedrooms at the Kensington Inn, London; £750,0000 for the refurbishment of the public areas, including the reception and restaurants at the Hilton International Hotel, Leeds; and £500,0000 for the second phase upgrading of bedrooms, bathrooms and corridors at the Burlington Hotel and Conference Centre, Eastbourne.

UK COMPANY NEWS

Gold Fields issues fresh warning

By David Waller

CONSOLIDATED Gold Fields, the diversified mining group which faces the threat of a renewed bid from Minorco, has written to its shareholders reiterating many of its criticisms of the Luxembourg-based investment group.

Mr Rudolph Agnew, Gold Fields chairman, told shareholders that the signs were that Minorco would soon return with a hostile bid in the wake of the Monopolies and Mergers Commission's decision that the original bid would not act against the UK public interest.

Mr Agnew urged shareholders to consider the implications of accepting shares in Minorco, currently controlled by South Africans. "There is a limited market in Minorco's shares", he wrote, "they trade at a substantial discount to net assets, and they are an unattractive investment for public shareholders due to the concentration of ownership in the hands of the Anglo American group."

Meanwhile, to deter what he termed Anglo-Amercian's long standing ambition to gain control of Gold Fields "on the cheap", the chairman said that in the three-month period of the inquiry the company had intensified its efforts to ensure that the market properly appreciates the worth of the shares.

The success of this was reflected in a share price of £14.65, compared to £10.85 the day before Minorco announced its bid, an increase of 35 per cent in under five months.

In a separate move, Mr Agnew has written to Lord Young, secretary of State for Trade and Industry, seeking to clarify the current status of a DTI report into dealings in Gold Field's shares comissioned in December 1986.

It is thought that Lord Young received the report in September last year.

The report focusses on the purchase of shares in Gold Fields by Barrick Resources, a US company.

Blue Arrow appoints Js Capel as broker

By Philip Coggan

BLUE ARROW has appointed James Capel as its stockbroker to replace Phillips & Drew, who resigned a week ago citing a lack of contact with the company's new management.

Mr Mitchell Fromstein, the former head of Manpower who is Blue Arrow's new chief executive, "has known and respected James Capel for some time", said Mr Bruce Gray, company secretary to Blue Arrow.

Warburg Securities, who were considered for the post, were understood to have had a potential conflict of interest, Mr Gray said.

Ironically, James Capel's analysts are among the most pessimistic in forecasting this year's results for Blue Arrow but this, said Mr Gray, only illustrated the broker's objectivity.

In the US, Blue Arrow will have as advisers Morgan Stanley, the securities house which acted for Manpower in its attempt to fight off the Blue Arrow $1.3bn bid in 1987.

The move completes a total reshuffle of Blue Arrow's advisory team; Lazard are UK financial advisers, instead of County NatWest.

Mr David Atkins, the former Blue Arrow deputy chairman who was recently stripped of his executive reponsibilities, has sold 300,000 shares at 92p each.

Meyer sells 19 small sites for £20m in UBM restructuring

By Philip Coggan

MEYER International, the builders' and timber merchant, has sold 19 outlets to private group Needwood Holdings for £19.75m as part of the first stage of the restucturing of UBM, the merchanting chain it recently acquired from Norcros.

Mr Richard Jewson, managing director of Meyer, said that the sites being sold were too small to fit the trading formula of Jewson, Meyer's building merchanting chain. A further nine UBM sites are likely to be closed.

The remaining 52 UBM sites will be converted to the Jewson trading name, giving Jewson 214 sites in all, making it the largest builders' merchant in the UK.

Mr Jewson said the assets of the 19 sites being sold had a net book value of £13.75m. The sites generate annual turnover of £30m. Meyer acquired the UBM chain as part of an asset swap in which Norcros acquired Meyer's manufacturing interests.

Needwood is a private company chaired by Mr Peter Aldridge, who led a management buyout of building materials group Thermalite in 1983 before selling the group to Marley, the tiles and building products group, in 1986.

Mr Aldridge has built up Needwood with the help of the purchase of the builders' merchant division of Whitecroft, the industrial holdings group.

Stainless Metalcraft in the red

By Peter Pearse

STAINLESS METALCRAFT was forced into losses for the year to August 31 1988 due to the lack of a settlement of a completed sub-contract, and is passing the final dividend.

At the taxable level this USM-quoted manufacturer of precision equipment and components for the medical, aerospace, electricity generation and nuclear industries suffered a downturn from profits of £138,716 to losses of £36,831.

The company has commenced arbitration proceedings to expedite settlement of the Stillage Support Structure sub-contract from Strachan & Henshaw, a subsidiary of DRG. The work, for British Nuclear Fuels, has been completed and its potential value has been assessed, by Stainless' claims consultant, to be £14.7m. Turnover increased 36 per cent to £12.9m (£9.46m), reflecting the scale of the sub-contract.

Mr Christopher Childs, Stainless chairman, said that subject to a successful commercial settlement of the sub-contract, the directors would consider the payment of a special dividend, which, according to Mr Mike James, financial controller, the company hoped would maintain last time's final of 2.5p.

There was an exceptional debit of £170,542 (nil) and an extraordinary debit of £200,801 (£50,000) in respect of a reorganisation of the group's engineering and fabrication activities, instituted after the appointment of Dr Maurice Ruddick as chief executive in June. Fully diluted losses per share were 0.6p (earnings 1.8p).

The company said that the order intake following the completion of the BNFL sub-contract had taken longer to build up than anticipated.

Although signs of an increase in orders were now emerging, the rationalisation of the forward order policy of Oxford Instruments Group has created a short-term interruption in work flow from that customer in the current year.

However, the contribution from Ferraris Instruments, the medical instrument manufacturing subsidiary, had remained satisfactory, particularly in view of adverse exchange rates.

Mountleigh has 22.7% of Control

By John Thornhill

MOUNTLEIGH, the property trading group which last month announced a drop in half year profits, has increased its stake in Control Securities, the property company headed by Mr Nazmu Virani, from 12.7 per cent to 22.7 per cent.

Mr Tony Clegg, chairman, said that the stake was an entirely friendly long-term strategic investment and added that this increased holding would add to the value of the original investment. "There are no thoughts of launching a bid at the moment," he said.

Mr Virani said he had spoken to Mountleigh and he was very pleased that it had taken a long term investment in the company.

Mountleigh announced that it bought 40m shares to take its total holding to 91.04m. It is believed that the seller was British Land.

Pavilion Leisure losses rise

By John Thornhill

PAVILION LEISURE, the Glasgow-based theatre proprietor which has been expanding its leisure interests, announced a loss of £108,585 on turnover of £479,841 for the year to October 31.

That compared with a loss of £32,649 on turnover of £497,737 in the previous period.

The loss was ascribed to the costs involved in an abortive negotiation with the Portuguese Diversol company.

Mr John Bailey, finance director, said the figures did not have a great deal of meaning because they did not reflect the recent changes that have taken place at Pavilion.

Following a boardroom reshuffle in August and the subsequent introduction of new management, the company bought the Aston Hippodrome in Birmingham for £2.15m in October and also eliminated its debt via a rights issue and placing which raised £2.6m.

In December, the company bought Hawkstone Park Hotel, with two golf courses, for £9.1m.

Mr Bailey also said that since the end of the financial year the Glasgow theatre had done very well. It had sold 95 per cent of its available seats for the pantomime, Snow White and the Seven Dwarves, and was totally booked for the current season. Mr Sean O'Neill, chief executive, declined to comment on whether he expected the company to return to profit this year.

COMPANY NEWS IN BRIEF

ANGLO & OVERSEAS Trust increased net asset value per 25p share to 274.7p (239.9p) at December 31 1988. Available earnings emerged at £5.01m (£5.05m) after interest of £3.76m (£1.93m) and tax of £2.43m (£2.16m). Earnings amounted to 4.39p (4.42p). Final dividend 2.75p making 4.1p (3.75p adjusted).

CADBURY SCHWEPPES' offer to acquire the outstanding shares in Cadbury Schweppes Australia has been accepted as to 79.76 per cent which takes the total group holding to 96.82 per cent. Outstanding balance will be acquired compulsorily.

CHILLINGTON CORPORATION - Some 89.1 per cent of the recent rights issue has been taken up.

EGLINTON EXPLORATION, Dublin-based oil and precious minerals exploration, production and investment concern, made 1988 after-tax profit I£117,502 (£55,636 loss). Total revenues £1.13m (£0.51m). Sale of gold from South Comstock Mine in Nevada made meaningful contribution to revenues for first time.

PERICOM is to acquire Delta Data System's third party service business for £325,000 cash. Value of assets being acquired is £103,000.

RURAL PLANNING Services has acquired ECPD Associates, an enviromental planning consultancy, for a maximum £171,000 in shares.

SECOND ALLIANCE: Net asset value totalled 1039p at January 31. That compared with 972p on July 31 and 903.4p at end-January 1988. Net income for the half year to January 31 last was £2.71m (£2.28m). Earnings per share emerged at 14.11p (11.85p). Interim dividend is lifted 1p to 8p.

WHITEGATE LEISURE has completed the purchase of five Strasbourg-based companies known as the Georgallides Group for £2.1m. An advance of £500,000 will also be made.

Cornwell Parker expands into fitted kitchens

By John Thornhill

Cornwell Parker, the fabrics and furniture group, is to diversify into the fitted kitchen market through the acquisition of County Kitchens for an initial consideration of £641,306.

Mr Martin Jourdan, chairman, said this was a significant strategic move. "It gives us a low cost entry into a new market that offers potential for considerable organic growth."

Initial consideration will be met by the issue of 13,603 ordinary and 174,964 non-voting shares, and £291,306 cash. Further payments can bring the aggregate maximum consideration up to £3m.

County manufactures and installs kitchens through its showrooms in Surrey and along the M4 corridor. It is expecting pre-tax profits of £150,000 on turnover of £9m in the current year.

NatWest Finance Australia

National Westminster Finance Australia is to shut down most of its offices outside the country's five largest centres in the face of growing competition in the Australian consumer credit market.

Eight of NWFA's 13 offices are to close and 170 staff will be made redundant. Canberra and Hobart will be among the offices shut down. NWFA is a wholly-owned subsidiary of NatWest Australia Bank. The closure will not affect the bank's branch operations.

Hodgson £4m expansion

By Andrew Hill

HODGSON Holdings, the funeral director, has acquired a further 14 funeral businesses for £4.3m cash.

The purchase adds 3,000 funerals to the 40,000 which Hodgson can conduct annually.

Six of the funeral directing businesses acquired are in the north west of England, three in Scotland, two in the West Midlands and the rest in the south east, north east and Northern Ireland.

Hodgson, which is quoted on the Unlisted Securities Market, announced a package of restructuring and new joint ventures earlier this week. It hopes to become the UK's first fully-listed funeral director in April.

Curtain Dream rises sharply to £457,000

A continuous development of the operations and management enabled Curtain Dream to expand rapidly in the half year ended December 31 1988.

Turnover advanced from £521,000 to £2.32m while pre-tax profits hit £457,000, compared with £38,000. Earnings climbed to 609.3p (45.6p).

The company operates a network of franchised soft furnishing retail outlets. It is now trading from 51 outlets, with a further 15 sites on stream, and manufacturing facilities have been increased accordingly.

The directors were confident that growth could be maintained. They added that the company was moving towards a USM flotation within a year.

Norton Opax magazine deal

Norton Opax, the specialist and security printing group, is to sell McCorquodale Magazines to St Ives Group, the UK's second largest magazine printer, for a nominal amount.

Norton announced three weeks ago that it would pull out of magazine printing at its loss-making Andover plant by April. If a buyer had not emerged the plant would have been closed.

Norton is still seeking buyers for its typesetting and repro business at the same site.

MS acquisition

MS International, has acquired Diathane (Circuits) for an initial £560,000 cash, and a deferred profits-related consideration of up to £200,000 cash payable over a two year period.

Diathane is a Norwich based designer and manufacturer of printed circuit boards. It made pre-tax profits of £142,000 on sales of £978,000 in 1987.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Poddington (Section: Third Market).

Haemocell (Third Market).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- Armour Trust, Dalgety, Triton Europe.

Finals- TR Pacific Investment Trust.

FUTURE DATES

Chartwell	Feb. 16
Ramar Textiles	Feb. 23
Scholes	Feb. 24
Throgmorton Dual Trust	Feb. 22
Transrap	Feb. 14
Finals	
Coates Viyella	Mar. 10
Kynoch Corp	Feb. 16
English & Overseas Props	Feb. 23
Greenall	Feb. 14
Low & Bonar	Mar. 13
Scholes Westgarth	Mar. 8
Robinson (Thomas)	Mar. 7

FINANCIAL TIMES STOCK INDICES

	Feb. 10	Feb. 9	Feb. 8	Feb. 7	Feb. 6	Feb. 3	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.10	89.25	89.29	88.88	89.00	88.92	91.43	86.18	127.4	49.18
Fixed Interest	97.37	97.28	97.18	97.08	97.63	97.45	98.67	94.14	105.4	50.53
Ordinary	1680.9	1702.9	1714.7	1694.9	1668.2	1689.0	1714.7	1349.0	1926.2	49.4
Gold mines	167.1	166.9	166.2	165.8	165.3	166.9	312.5	160.7	734.7	43.5
FT-Act All Share	1065.13	1075.88	1082.84	1070.79	1056.93	1067.88	1082.84	870.19	1238.57	61.92
FT-SE 100	2056.1	2079.1	2096.2	2072.8	2044.3	2069.9	2096.2	1694.5	2443.4	986.9

LEGAL COLUMN

Advocating benefits of contingency fees

By David Churchill

THE MAN who served the first writ on Mrs Edwina Currie over the salmonella-in-eggs row – and is acting for the liquidators of the Jean Michel Jarre Docklands concert – is, not surprisingly, very much in favour of a contingency fee system for Britain's lawyers.

Mr Douglas Stewart, of the London law firm Stewarts, is widely regarded as one of the UK's leading accident claims and litigation solicitors.

His work for a number of high-profile cases in recent years – including motorway accidents and industrial pollution as well as the rather more public eggs row – has made him well aware of the need for a "no win, no fee" system as suggested by the Government's recent green paper on the reform of the legal profession.

"There are lots of benefits of such a system," he maintains.

"If if means that ordinary people with a good case can enter into litigation which at present they cannot afford, then that must be good for society," he says.

"I think the dangers of the system being abused as is suggested has happened in the US are much overrated.

"Damages in this country are rather mean at the moment and if a contingency fee system means that they will rise, then that also must be good for the public."

Mr Stewart in particular believes that the legal aid system in this country has fallen into disrepute: "It is not fulfilling its original function of making the law more accessible," he says.

Some lawyers, however, believe that England and Wales already has a contingency fee system, albeit an unofficial one.

> 'Contingency fee charging is not only allowed but flourishing in England'

"Contingency fee charging is not only allowed but flourishing in England," claims Mr John Pratt, a partner in London and Birmingham solicitors Needham and James.

"All conveyancing is charged on a contingency fee and increasingly larger commercial transactions such as acquisitions and management buy-outs are charged on a no win, no fee basis," he adds.

While Mr Pratt acknowledges that special considerations apply to litigation, he believes that if contingency fee charging is allowed in other areas then there are strong arguments for it applying across the board.

The prospect for moves towards a contingency fee system in England and Wales – there is already the basis of such a system in Scotland – are now quite good.

Even the Law Society has overcome its initial hostility to the concept and acknowledged that changes to the present law are needed.

A contingency fee system, according to the definition given in the Government's green paper, "is an arrangement whereby a lawyer agrees that he will accept his client's case on the basis that he receives no payment if the case is lost, but that if it is won, he will be paid some percentage of share of the award made by the court."

Opponents of such a system have traditionally based their objections around the US experience, where juries are encouraged to award excessively high damages and lawyers are encouraged to persuade litigants to proceed with cases of very little merit.

Lord Mackay, the Lord Chancellor, made it clear in the green paper from his department that he was not very impressed by fears of following the US example.

He suggested that the differences between the two legal systems made such comparisons unjustified.

"If contingency fees were introduced here under the current rules of court, with judges and not juries determining the amount of damages awarded, and with the rule that 'costs follow the event' operating as at present, it might be possible to avoid the adverse effects of contingency fees as they presently operate in the US," he concluded in the green paper.

The Government believes it would be a practical first step to allow speculative actions in England and Wales along the lines of the Scottish model. This involves litigation undertaken on the basis that the solicitor and advocate are only paid their normal fee if successful.

The green paper suggests that there could be a small uplift in the costs if such a system were introduced into England and Wales as an incentive to the lawyer.

"I welcome this suggestion for those cases where a client does not have resources through legal aid, his union, or private means to pursue a case," says Mr David Allen, a partner in Ingledew Botterell of Newcastle-upon-Tyne.

"But I have reservations as to whether we will find legal aid being made available in fewer cases which otherwise qualify financially," he adds.

Although the Government does not believe it appropriate to remove all existing restrictions on the use of contingency fees, it does feel that there could be a strong case for a more progressive no win, no fee system which goes further than mere speculative actions along Scottish lines.

The green paper proposals have generally been welcomed by lawyers – with certain reservations – and especially those based outside London.

> The Government feels there could be a strong case for a no win, no fee system

"A suitable contingency fee scheme as envisaged in the green paper could fulfill a definite need within the community in view of the severely restricted range of those entitled to legal aid," comments Mr Trevor Lewis, joint senior partner of Leeds- and Bradford-based solicitors Hammond Suddards.

Mr Graeme Jump, parter at Mace and Jones of Liverpool and Manchester, also believes that there is room for a restricted use of the contingency approach, subject to clear professional guidelines.

"But personally I do not think that the introduction of the full-blown US system would prove to be the panacea which some might perceive it to be," he suggests.

But not all lawyers believe that contingency fees will prove a good idea.

"The present proposals fail to provide sufficient reward to warrant a risk which includes the expenses of counsel and other expert professional witnesses," says Mr George Coyle, a partner in Hull-based Rollit, Farrell, and Bladon.

"Unless these parties share the risk, the contingency fee will not prove attractive, particularly to the small firm with a bank manager to placate," he adds.

Mr Ian Pawley, a partner in the west country solicitors Stephens and Scown, also warns that "few provincial firms outside the major conurbations could afford to carry litigation costs over lengthy periods without regular income from 'conventional' sources."

He asks: "Where is the attraction in dealing with work of this type without the unrestricted use of contingency fees which the green paper condemns as undesirable?"

LEGAL APPOINTMENTS

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	45.53	46.06xd	48.99	5.50	40000
Gilts & Fixed Int	6	115.30	115.30	122.40	8.17	40001
High Inc Equity	6	122.70	130.00	139.00	4.28	40002
Worldwide Bond	6	184.5	184.5xd	195.5	4.96	40003
Capital Growth						
American Growth	6	155.80	157.60	167.6	1.31	40004
Asian Pacific	6	80.05	81.26	86.90	1.24	40005
Assets & Earnings	6	152.00	155.60	165.50	2.34	40006
Capital Reserve Acc	0	83.11	83.11	83.21	4.81	40007
Comdty & Energy	6	96.05	96.05	102.80	0.00	40008
1992 Enterprise	6	53.10	54.13	57.53	3.13	46597
European Capital	6	76.96	77.50	82.44	0.91	40009
General	6	169.00	171.00xd	181.90	2.47	40010
Japan	6	105.4	107.1	113.9	0.00	40011
Mastertrust	6	78.65	78.65	84.12	1.75	40012
UK Growth Acc	6	192.9	201.1	213.9	1.59	40013
UK Growth Dist	6	129.1	134.7	143.2	2.38	40014
US Emerging Cos	6	46.62	48.10	51.35	0.00	40015
Income & Growth	6	281.5	287.8	306.10	5.10	40016
Ethical	6	47.23	48.42	51.50	2.43	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0224 633070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5¼	42.70	42.70xd	45.42	1.84	40022
Australian	5¼	23.64	23.64	25.15	1.19	40024
European	5¼	52.44	52.44	55.79	0.00	40025
Extra Income	5	42.19	42.19	44.78	5.95	40023
Fund Inv Tst	5	116.9	116.8	124.1	2.43	40100
Do Accum	5	178.0	178.0	189.1	2.43	40101
Gilt & Fixed Int	5¼	21.96	21.96	23.36	10.09	40026
Global Income	5¼	38.56	38.55	41.01	4.58	40027
Income & Growth	5¼	71.35	71.35xd	75.91	5.35	40029
Japan	5¼	176.4	176.4	187.6	0.01	40031
Nth Amer Inc (z)	5	26.32	26.32	27.94	3.96	40019
Special Situations	5¼	69.55	69.56	73.99	1.02	40032
UK Growth	5	35.85	35.85	38.05	2.54	40102

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA 01-588 3963

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
PM Equity Gth	5	116.7	118.8	126.3	2.83	41169
PM Income & Gth	5	105.0	106.6	113.3	4.21	41170
PM Nth Amer Gth	5	46.86	46.86	49.85	1.51	41171
PM European Gth	5	46.71	46.79	49.77	0.89	41172
PM Japan Gth	5	79.88	79.95	85.05	0.29	41173
PM Overseas Gth	5	50.05	50.05	53.24	1.89	41174

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ▽ - 0001 to 1100 hours; ◆ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; # - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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INSURANCES

Continued on next page

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

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IoM AUTHORISED

LUXEMBOURG AUTH'D

OTHER OFFSHORE FUNDS

BERMUDA AUTHORISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
855	Treas 9½pc Cnv 1989	99[illegible]	12.79	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	98[illegible]	9.91	10.10	15 Nov 15 May	1327
1,400	Treas 10½pc 1989	99[illegible]	12.48	7.11	14 Dec 14 Jun	1287
2,400	Exch. 10pc 1989	98[illegible]	12.40	28.12	1 Feb 1 Aug	1250
2,000	Exch 11pc 1989	99[illegible]	12.26	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	96¾	10.09	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pcCv '89	99½	11.09	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101½	11.25	9.12	15 Jan 15 Jul	1300
1,400	Exch 11pc 1990‡‡	99[illegible]xd	11.26	6.1	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	101[illegible]	11.36	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	92[illegible]	9.50	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	96[illegible]	11.03	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	98½	9.14	12.12	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	98[illegible]	10.95	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	89[illegible]	8.87	17.10	22 Nov 22 May	1270
2,200	Treas 11¾pc 1991	101[illegible]	10.83	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	91¾	10.17	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	88[illegible]	8.83	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	100[illegible]	9.95	6.12	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	100[illegible]	10.58	19.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	94	10.51	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	106[illegible]	10.27	16.12	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	99[illegible]xd	10.30	16.1	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	95[illegible]	10.55	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100[illegible]	10.26	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	85	8.27	4.11	11 Dec 11 Jun	1328
1,350	Exch. 12¼pc '92	105[illegible]xd	10.33	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	109[illegible]	10.29	16.8	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	93[illegible]xd	10.16	17.1	18 Aug 18 Feb	–
1,850	Treas 10pc 1993‡‡	99[illegible]	10.03	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	108[illegible]	10.07	8.12	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	87¾xd	9.34	6.2	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	113[illegible]	10.09	17.10	23 May 23 Nov	1304
1,050	Treas. 8½pc 1994	94[illegible]	10.06	28.12	3 Aug 3 Feb	–
	Five to Fifteen Years					
600	Treas 14½pc 1994‡‡	117[illegible]xd	9.99	23.1	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	113[illegible]	10.12	20.9	27 Oct 27 Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	100[illegible]	9.91	2.11	9 Dec 9 Jun	1284
1,550	Exch. 12½pc 1994	109[illegible]xd	10.11	16.1	22 Feb 22 Aug	1263
1,600	Treas 9pc 1994‡‡	96[illegible]	9.86	11.10	17 May 17 Nov	1345
2,350	Treas 12pc 1995	108¾	10.09	19.12	25 Jul 25 Jan	1294
229	Exch 3pc Gas 90-95	78½	7.56	26.9	1 Nov 1 May	1271
2,100	Exch. 10¼pc 1995	101[illegible]	9.96	15.12	21 Jan 21 Jul	1254
1,000	Treas 12¾pc 1995‡‡	113¾	9.98	10.10	15 May 15 Nov	1298
900	Treas. 14pc '96	119[illegible]	10.09	16.12	22 Jul 22 Jan	1305
750	Treas. 9pc 1992-96‡‡	97[illegible]xd	9.57	6.2	15 Sep 15 Mar	1344
1,350	Treas 15¼pc 1996‡‡	126[illegible]	10.00	27.9	3 Nov 3 May	1309
800	Exch 13¼pc 1996‡‡	116¼	9.93	10.10	15 Nov 15 May	1268
1,109	Conversion 10pc 1996	100[illegible]	9.82	10.10	15 May 15 Nov	1240
1,500	Treas 13¼pc 1997‡‡	118	9.92	16.12	22 Jul 22 Jan	1302
3,100	Exch 10½pc 1997	103¼xd	9.81	16.1	21 Aug 21 Feb	1253
3,750	Treas 8¾pc 1997‡‡	94[illegible]xd	9.63	23.1	1 Mar 1 Sep	1341
1,000	Exch 15pc 1997	128[illegible]	10.07	20.9	27 Apr 27 Oct	1269
2,850	Exch. 9¾pc 1998	100⅛	9.72	13.12	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	84½	9.31	26.9	1 Nov 1 May	1331
1,100	Treas. 15½pc '98‡‡	133[illegible]	9.95	24.8	30 Mar 30 Sep	1308
2,500	Exch. 12pc 1998	113[illegible]	9.83	14.10	20 May 20 Nov	1259
1,250	Treas 9½pc 1999‡‡	100¼	9.46	9.12	15 Jul 15 Jan	1347
2,900	Exch. 12¼pc 1999	115⅛	9.82	22.8	26 Sep 26 Mar	1264
1,252	Treas. 10½pc 1999	105⅛	9.70	13.10	19 Nov 19 May	1288
1,548	Conversion 10¼pc 1999	103[illegible]	9.70	17.10	22 May 22 Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	93⅝	9.45	22.12	28 Jan 28 Jul	1338
1,554	Conversion 9pc 2000‡‡	96[illegible]xd	9.47	25.1	3 Sep 3 Mar	1244
1,817	Treas. 13pc 2000	121[illegible]	9.82	8.12	14 Jan 14 Jul	1299
1,050	Treas 10pc 2001	103[illegible]xd	9.56	20.1	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98-01	123¾	9.99	17.10	22 Nov 22 May	1306
802	Conversion 9¾pc 2001	101[illegible]	9.53	4.1	10 Feb 10 Aug	1248
1,600	Exch. 12pc '99-02	113[illegible]	9.85	16.12	22 Jul 22 Jan	1261
716	Conversion 10pc 2002	104⅛	9.45	5.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	102½xd	9.43	23.1	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	97[illegible]	9.45	13.10	19 May 19 Nov	1272
1,800	Treas. 13¾pc 2000-03	126[illegible]	9.87	19.12	25 Jan 25 Jul	1303
1,800	Treas 10pc 2003	105¼xd	9.34	30.1	8 Mar 8 Sep	1281
	Over Fifteen Years					
1,900	Treas. 11½pc 2001-04	112[illegible]xd	9.66	10.2	19 Sep 19 Mar	1290
900	Treas. 10pc 2004	106[illegible]	9.26	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99-04	59[illegible]	8.14	8.12	14 Jan 14 Jul	1274
1,362	Conversion 9½pc 2004	102[illegible]	9.21	19.9	25 Apr 25 Oct	1246
1,881	Conversion 9½pc 2005	102[illegible]	9.18	12.9	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	111[illegible]	9.18	15.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003-05	124[illegible]	9.39	17.10	21 May 21 Nov	1295
1,800	Treas. 8pc 2002-06‡‡	90[illegible]	9.12	1.9	5 Apr 5 Oct	1334
369	Conversion 9¾pc 2006	105[illegible]	9.14	10.10	15 May 15 Nov	1249
3,150	Treas. 11¾pc 2003-07	118[illegible]	9.38	16.12	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	95[illegible]	8.99	12.12	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04-08	134[illegible]	9.27	22.8	26 Sep 26 Mar	1301
1,800	Treas. 9pc 2008 ‡‡	100⅛	8.94	6.9	13 Apr 13 Oct	1343
1,000	Treas 8pc 2009	91[illegible]	8.90	19.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	101½	8.85	6.12	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	68[illegible]xd	8.67	1.2	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012-15‡‡	89[illegible]	8.81	20.12	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13-'17	131[illegible]	8.86	7.11	12 Jun 12 Dec	1260

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Undated					
359	Consols 4pc	45	–	28.12	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	40[illegible]	–	22.11	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft	66[illegible]	–	25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft	36	–	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	28¾	–	1.12	5 Ja Ap Jul O	1238
475	Treas. 2½pc	28¾	–	25.8	1 Apr 1 Oct	1315
	Index-Linked	(b)	**			
500	Treas 2pc IL '90(84.6)	125[illegible]	3.10	19.12	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	105	3.54	17.8	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	97	3.52	10.10	16 Nov 16 May	–
1,000	Do. 2pc '96(67.9)	142xd	3.56	7.2	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	121[illegible]	3.62	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	119[illegible]	3.63	14.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	122	3.65	13.12	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	114½	3.63	14.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	119½xd	3.61	17.1	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	99[illegible]xd	3.58	10.1	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	107½	3.55	20.12	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	105¼	3.49	9.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	88¾	3.45	12.12	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for May 1988:106.2 and for December 1988:110.3

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	108¾	10.15	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	104[illegible]	9.74	26.9	24 Mar 24 Sep	–
100	Australia 13½pc 2010	129[illegible]	10.08	23.12	28 Jan 28 Jul	–
100	Do. 11¾pcLn2015	113¼	9.96	22.9	26 Apr 26 Oct	–
75	Euro Inv Bk 11pc Ln 2002	108[illegible]	9.88	23.8	23 Mar 23 Sep	–
100	Do. 10¾pc2004	104[illegible]	9.84	24.10	22 Mar 22 Nov	–
75	Int-Am Dev Bk 12½pc 2003	118[illegible]	10.04	7.12	8 Jan 8 Jul	–
175	Do. 9¾pcLn 2015	99[illegible]	9.81	13.10	15 May 15 Nov	–
75	Mlysia 10¾pcLn 2009	96¾xd	11.16	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	118	13.80	27.7	1 Mar 1 Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	100½	11.20	26.10	20 May 20 Nov	1838
45	Do. 11½pc 2012	102½	11.20	14.10	15 May 15 Nov	1837
40	GLC 6¾pc 1990-92	89½xd	12.90	16.1	15 Feb 15 Aug	2647
40	Leeds 13½pc 2006	122½	10.72	9.9	1 Apr 1 Oct	3146
5	Liverpool 3½pc Irred	33	–	1.12	1 Ja Apr Jn Oc	3169
25	LCC 6¾pc '88-90	94½xd	11.00	12.12	10 Jan 10 Jul	3198
26	Do. 3pc '20 Aft	30xd	–	1.2	1 Mar Jn S D	3197
7	Manchester 11½pc 2007	106½	10.90	23.9	25 Apr 25 Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988-92	89½	10.20	1.12	1 Jan 1 Jul	–
–	S Rhod 2½pc Non-Assd.	206	–	–	1 Apr 1 Oct	–
4	Do. 4½pc 87-92 Assd.	84½xd	9.33	9.1	7 Feb 7 Aug	–

LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Building Societies					
20	N'wide Anglia 9[illegible]pc 20.2.89	99[illegible]	13.03	15.7	20 Feb 15 Aug	–
20	Do. 9[illegible]pc 13.3.89	99⅝	13.01	8.8	13 Mar 7 Sep	–
20	Do. 9[illegible]pc 17.4.89	99½	13.25	12.9	17 Apr 11 Oct	–
20	Do. 9½pc 8.5.89	99	13.27	4.10	8 May 3 Nov	–
20	Do. 8[illegible]pc 30.5.89	98⅝	13.26	24.10	30 May 23 Nov	–
20	Do. 9[illegible]pc 26.6.89	98¼	13.01	21.11	26 June 20 Dec	–
20	Do. 10[illegible]pc 17.7.89	99[illegible]xd	12.96	12.12	–	–
20	Do. 11[illegible]pc 7.8.89	99⅛xd	12.97	3.1	–	–
20	Do. 11[illegible]pc 29.8.89	99⅜	12.90	–	–	–
20	Do. 12[illegible]pc 18.9.89	99[illegible]	12.80	–	–	–
20	Do. 12[illegible]pc 2.10.89	99⅝	12.79	–	–	–
20	Do. 11[illegible]pc 6.11.89	99¼	12.73	–	–	–
20	Do. 12[illegible]pc 4.12.89	99⅝	12.69	–	–	–
–	Do. 12[illegible]pc 2.1.90	100[illegible]	12.69	–	–	–
60	Do. 3¾pcIL Ln 2021	101[illegible]xd	4.37	23.1	30 Jan 31 Jul	3465
	Public Board and Ind.					
3	Agric. Mt. 5pc '59-89	97	3.26	1.12	1 Jan 1 July	1532
25	Met. Wtr. 3pc 'B'	45xd	10.45	1.2	1 Mar 1 Sep	3361
	Financial					
33	3i 11¾pc Un Ln '90	99¾xd	11.96	13.1	11 Jan 11 Jul	–
15	Do 7¼pcADb89-92	89¼	10.73	28.11	30 Sep 31 Dec	–
15	Do. 12½pc Un. Ln. 1992	103[illegible]	10.98	15.8	14 Mar 14 Sep	–
10	Do. 7¼pc A 1991-94	86⅝	10.45	5.9	31 Mar 30 Sep	–
10	Do. 9pc A 1991-94	97½	9.70	5.9	31 Mar 30 Sep	–
9	Do. 8¾pc Ln 1992-97	91[illegible]xd	10.49	30.1	31 Aug 28 Feb	–

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1 May 1 Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	7.50	1.2	1 Feb 1 Aug	2762
–	Do 4pc Mixed Ass.	40	2	5.00	3.10	1 Apr 1 Oct	2761
1	Hong. '24 Ass.	80	2.75	3.57	3.5	1 May	2955
40	Hydro Quebec 15pc 2011	139[illegible]	15.00	10.45	27.10	31 May 30 Nov	–
30	Iceland 14½pc Ln 2016	128¼xd	14.50	11.18	29.12	31 Jan 31 Jul	–
30	Ireland 9¾pc '91-96	97	9.75	10.35	1.8	1 Mar 1 Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
6,357.3	Abbott Laboratories‖	27[illegible]xd	$1.20	2.4	11.1	Fb My Ag Nv	1503
238.5	Allegheny & W 1c	459p	30c	3.6	–	–	–
1,849.4	Amax $1	15⅛xd	40c	1.5	7.2	Mr Jn Se De	1581
1,181.3	Amdahl 5c	11¼xd	h10c	0.5	31.1	Fb Mr Jn Ag	–
2,528.4	Amer. Cyanamid $5	28¼	$1.20	2.3	22.2	Mr Je Se De	–
8,737.2	Amer. Express 60c	17[illegible]xd	84c	2.6	3.1	Fb My Ag Nv	1594
774.7	Amer. Medical Int. $1	953p	‡72c	4.2	9.1	Fb My Au Nv	–
19,327.5	American T. & T. $1	18	$1.20	3.7	27.5	Fb My Ag Nv	1597
8,153.1	Ameritech $1	29½xd	h$2.92	5.5	27.6	Fb My Au Nv	–
5,716.9	Anheuser-Busch $1	19[illegible]xd	72c	2.1	6.2	Mr Jn Se De	1620
2,196.0	BankAmerica $1 2	12⅛	–	–	11.85	Fe My Au No	1744
1,734.8	Bankers N.Y. $1	21[illegible]	$1.86	4.7	29.12	Ap Jy Oc Ja	1745

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	USX $1	17[illegible]	$1.40	4.4	7.2	Mr Je Se De	4380
120 [illegible]	Unilab	130p	–	–	–	–	–
[illegible]	Utd. Technologies	25[illegible]	$1.60	3.4	15.11	Mr Je Sp Dc	4381
–	Utilitech Inc	138p	–	–	–	–	–
6,597 [illegible]	US West	34[illegible]	$3.52	5.6	13.4	Fb My Ag No	–
5,580 [illegible]	Waste Management $1	24[illegible]	48c	1.1	16.12	Ap Jy Oc Ja	4439
1,038 [illegible]	Whirlpool $1	15	$1.10	4.1	30.11	Mr Jn Se De	–
2,151.0	Whitman Corp	29[illegible]	96c	2.8	6.12	Ap Jy Oc Ja	2951
1,999.8	Woolworth $3½	30[illegible]	$1.64	3.0	26.1	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ABM Gold Corp	149p	–	–	–	–	–
–	Abbot Energy Corp	12p	–	–	–	–	–
655.2	Amer. Barrick Res.	11[illegible]	–	–	–	–	–
–	Amer. Lightware	21[illegible]p	–	–	–	–	–
–	Armeno	16[illegible]p	–	–	–	–	–
–	Augmitto Expln.	24p	–	–	–	–	–
1,481.[illegible]	Bk. Montreal	14[illegible]	$2.12	7.1	8.8	Fb My Ag No	–
[illegible]	Bk. Nova Scot.	726p	84c	5.5	28.9	Ja Ap Ju Oc	–
[illegible]	BCE	18[illegible]	$2.44	6.4	6.6	Ap Jy Oc Ja	–
276.6	Bow Valley	663p	40c	2.9	15.12	May Nov.	–
933.5	Brascan	13[illegible]	86c	3.1	28.10	Ja Ap Jy Oc	–
46.0	Breakwater Res.	205p	10c	2.3	–	–	–
[illegible]	Can. Imp. Bank	12[illegible]	$1.16	4.4	29.6	Fe My Au No	–

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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LONDON SHARE SERVICE

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LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,156.2	Westn. Mining 50c.	255	Q23c	4.4	24.10	May Dec	4479
—	Walm Creek 10c.	111	Q11c	5.7	—	—	4486

Tins

Miscellaneous

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
8.72	Royal Sovereign 10p. γ	197	14.6	3.1	3.10	May Nov	1505
1.47	Scott Pickford 10p. γ	21	3.1	19.7	—	—	5062
7.50	Seacon Hldgs. γ	108	21.0	1.2	19.9	October	3968
1.06	Sonic Tape 2½p. γ	8½	n—	—	—	—	5152
4.14	Staks Hldgs. 5p. γ	15	—	—	—	—	4625
2.85	Swanyard Studios 1p γ	2	—	—	—	—	4666
29.2	Takare. γ	335	b1.0	0.4	—	—	4647
3.25	Tomorrows Leisure 20p γ	29	—	—	—	—	4248
11.1	Tullow Oil 10p. γ	17	—	—	—	—	4886
4.03	UPL Group 10p. γ	100	L2.41	3.2	28.11	June	4362
7.49	Unit Group. γ	145	F7.5	6.9	28.11	Jan July	4357
11.0	Whitegate Leisure 20p. γ	15½	—	—	—	—	1105
0.77	Do. Wrnnts. γ	11½	—	—	—	—	1116
16.9	Wilton Group 1p. γ	5	—	—	—	—	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Not officially listed.
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- Not comparable
- Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- No par value

B.Fr. Belgian Francs. Fr. French Francs. Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p. γ	77	......
Craig & Rose £1. γ	710	......
Finlay Pkg. 5p. γ	89	......
Holt (Jos) 25p. γ	1235	+5

IRISH

Cap. 8½% Ln. 1991	£99½	......
9pc Cap Ln. 1996	£108¼	+¼
Fin. 13% 97/02	£122¼	......
Arnotts	420	−5
Carrol (P.J.) γ	154	−1
Hall (R. & H.)	175	+5
Heiton Hldgs. γ	69	−1
Irish Ropes	188	+10

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord.	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	98
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	23

Mines

Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Discounting a profit at Union

A FALL in annual profits to £3.465m from £11.061m would suggest all was not well for many companies. It was not a particularly sparkling result for the Union Discount Company, but only resulted in a fall of 3p in the share price.

The nature of a discount house means that profits are tied to the interest rate cycle, and opportunities to make profits in a year like 1988 were nearly as rare as a January snowflake in London this winter.

Discount houses can make large capital profits on their investments at a time when interest rates are falling, but when rates are rising it is all too easy to lose money, particularly if the book is too long.

This lesson appears to have been learnt, and 1988 did not bring the disasters of 1973, when the liquid assets of the houses were virtually wiped out. At the end of 1973 Union Discount had nothing in the profit and loss account. Its resources had effectively been cut in half and the greatest asset was the value of its office at 39, Cornhill.

This was largely because the houses were holding gilts at a time when interest rates rates shot up from 7½ per cent to 11½ per cent in a little over one week. In June 1973 the houses held £313m of Government stock, and by September this had fallen to £31m.

It has to be admitted that the gilt market is not the place it used to be, thanks to Government policy of repaying the national debt. The market has contracted, keeping prices up at a time when interest rates were also rising.

Last year bank base rates fell from 8½ per cent at the beginning of the year, to a low of 7½ per cent in May, before climbing to the present level of 13 per cent in November. As Mr Graeme Gilchrist, managing director of Union Discount, pointed out when announcing the company's results last Wednesday: "Never before have interest rates moved consistently upwards as many as nine times within such a short period."

How does a discount house make any sort of profit in these circumstances? Certainly not on the gilt book, although there was also not the potential to lose money as in 1973.

The answer is in short term jobbing of the money book, which Union managed rather well in 1988. Some 60 per cent of the £3.465m profit came from core discount house operations, and most of this was through making a running profit on the money book.

This involved running bills through to maturity, and financing this paper through borrowing short-term money at a lower level. For example on Friday the yield on a one-month bank bill was around 12.85 per cent, while houses were offering 12$\frac{13}{16}$ (12.8125) per cent for one week money, with overnight funds picked up at little more than 8 per cent at one time, although the average cost throughout the day was higher.

A running profit would have been easier to achieve after the initial surge, when base rates rose five times from 7½ per cent on June 1 to 10 per cent by July 4. After this Union relied on small but regular periods of stability, during which time it held a substantial number of one-month bills.

Union estimates that if there was no rise in base rates for over 14 days it began to make a profit on that paper, and this increased as the bill ran through to maturity.

During the entire period from 7½ per cent on June 1 to 13 per cent on November 25 the average time between base rate increases was about 19 days. However between July 4 and November 25 the average between rate rises rose to 36 days, hence a profit at the end of a difficult year.

Colin Millham

£ IN NEW YORK

Feb.10	Close	Previous Close
£ Spot	1.7460-1.7470	1.7535-1.7645
1 month	0.48-0.46pm	0.49-0.47pm
3 months	1.41-1.37pm	1.45-1.40pm
12 months	3.75-3.65pm	3.98-3.78pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Feb.10	Previous
8.30 am	[illegible]	[illegible]
9.00 am	[illegible]	[illegible]
10.00 am	[illegible]	[illegible]
11.00 am	[illegible]	[illegible]
Noon	[illegible]	[illegible]
1.00 pm	[illegible]	[illegible]
2.00 pm	[illegible]	[illegible]
3.00 pm	[illegible]	[illegible]
4.00 pm	[illegible]	[illegible]

CURRENCY RATES

Feb.10	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.748125	0.639294
U.S Dollar	6.50	1.31261	1.13283
Canadian $	11.54	1.55364	1.34014
Austrian Sch.	4	17.1899	14.6758
Belgian Franc	7.75	51.1832	43.7215
Danish Krone	7½	9.50278	8.11389
Deutsche Mark	4	2.44156	2.08633
Neth.Guilder	5.00	2.75756	2.35572
[illegible]	[illegible]	[illegible]	[illegible]

*All SDR rates are for Feb.9

CURRENCY MOVEMENTS

Feb.10	Bank of England Index	Morgan** Guaranty Changes %
Sterling	97.8	-14.3
U.S Dollar	67.3	-11.4
Canadian Dollar	102.6	-0.2
Austrian Schilling	106.2	+9.4
Belgian Franc	105.6	-6.5
Danish Krone	102.6	-2.2
Deutsche Mark	112.1	+20.0
Swiss Franc	108.0	+17.6
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Feb.10	£	$
Argentina	31.4400-31.6500	17.9000-18.0100
Australia	1.9780-1.9805	1.1255-1.1265
Brazil	1.7480-1.7580	0.9950-1.0000
Finland	7.5375-7.5615	4.2920-4.3040
Greece	269.85-274.35	152.55-155.35
Hong Kong	13.6935-13.7105	7.7970-7.7990
Iran	122.50*	70.00*
Korea(Sth)	1192.75-1202.35	675.90-681.50
Kuwait	0.50400-0.50510	0.28740-0.28770
Luxembourg	68.25-68.35	38.90-39.00
[illegible]	[illegible]	[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

Feb.10	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
YEN	4.439	7.785	14.49	1000.	49.31	12.32	16.36	10555	9.232	303.2
F Fr.	0.900	1.579	2.939	202.8	10.	2.498	3.317	2140	1.872	61.48
S Fr.	0.360	0.632	1.177	81.19	4.004	1	1.328	856.9	0.750	24.61
H Fl.	0.271	0.476	0.886	61.14	3.015	0.753	1	645.3	0.564	18.53
Lira	0.421	0.738	1.373	94.74	4.672	1.167	1.550	1000.	0.875	28.72
C $	0.481	0.843	1.570	108.3	5.341	1.334	1.772	1143	1	32.84
B Fr.	1.464	2.568	4.780	329.9	16.27	4.063	5.395	3482	3.045	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Little justification for lower base rates

INTEREST RATES in London were a little firmer last week. The Bank of England Quarterly Bulletin, published Thursday night, did not suggest any immediate danger of higher bank base rates, but it did endorse the high interest rate policy of Mr Nigel Lawson, the Chancellor. The Bulletin also suggested that the apparent slowing in average earnings is illusory, with no sign that earnings growth in any sector has moderated. Indications are that the trend remains firmly upward.

This is not the background for an early cut in base rates, and there are many voices in the City suggesting rates should not come down until well into the second half of the year, when inflation hopefully will have shown signs of declining.

Three-month sterling interbank rose to 13 per cent from 12$\frac{15}{16}$ per cent, firmly underpinning base rates of 13 per cent. The reversed yield curve also flattened slightly, with one-year funds rising to 12$\frac{5}{16}$ per cent from 12$\frac{7}{16}$ per cent.

Apart from the domestic situation many observers cannot see the justification for lower base rates at a time when international rates have been rising. Some US banks announced a rise of ½ per cent to 11 per cent in their prime lending rates on Friday and the West German Bundesbank kept a tight grip on its domestic money market last week. Frankfurt call money was left hovering around the 6 per cent Lombard emergency financing rate after the Bundesbank drained DM1.1bn from the banking system at last week's securities repurchase agreement tender.

UK clearing bank base lending rate 13 per cent from November 25

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY FEBRUARY 10 1989 US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY FEBRUARY 9 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	151.86	+5.1	128.36	113.73	4.71	152.27	128.63	114.14	157.12	91.16	93.11
Austria (18)	96.57	+0.7	81.62	92.47	2.66	95.74	80.88	92.47	100.00	83.72	84.35
Belgium (63)	135.22	+0.1	114.29	130.72	3.94	135.12	114.14	130.28	139.89	99.14	114.46
Canada (125)	133.87	+6.6	113.15	114.97	3.20	135.33	114.32	115.98	137.27	107.06	111.94
Denmark (39)	157.93	+0.8	133.49	155.46	1.89	158.03	133.50	155.39	161.60	111.42	114.82
Finland (26)	146.97	+12.3	124.23	132.57	1.32	145.02	122.51	130.68	146.97	106.78	111.32
France (130)	119.60	+4.0	101.09	118.85	2.73	119.98	101.36	119.09	119.98	72.77	80.93
West Germany (102)	86.26	-1.9	72.91	83.48	2.26	86.30	72.90	83.41	90.40	67.78	72.92
Hong Kong (45)	132.66	+18.7	112.13	132.82	3.58	133.77	113.00	133.91	133.77	84.90	87.28
Ireland (17)	137.95	+4.7	116.61	135.55	3.73	138.75	117.21	136.19	144.25	104.60	106.78
Italy (98)	79.44	-6.7	67.14	80.44	2.51	79.72	67.35	80.68	86.88	62.99	64.67
Japan (456)	196.06	+2.4	165.72	159.06	0.47	196.10	165.66	159.29	197.43	133.61	147.88
Malaysia (36)	159.52	+11.2	134.83	167.60	2.56	158.66	134.04	166.70	159.52	107.83	109.40
Mexico (13)	163.72	+1.2	138.39	414.94	1.23	165.00	139.39	418.35	182.24	90.07	148.11
Netherland (39)	113.72	+1.2	96.12	108.99	4.56	114.46	96.69	109.65	115.04	95.23	98.58
New Zealand (24)	76.02	+12.5	64.26	65.30	5.92	74.39	62.84	64.43	84.05	63.32	67.92
Norway (26)	159.25	+14.6	134.61	145.31	1.87	160.46	135.55	146.52	161.54	98.55	101.89
Singapore (26)	143.62	+14.8	121.39	127.60	2.09	142.97	120.78	126.89	143.62	97.99	101.20
South Africa (60)	128.38	+9.9	108.51	111.58	4.23	128.11	108.22	112.02	139.07	98.26	119.68
Spain (42)	146.85	-1.0	124.13	128.72	3.69	147.29	124.43	128.99	164.47	130.73	132.80
Sweden (35)	151.85	+5.0	128.35	142.13	2.17	150.69	127.30	141.04	151.85	96.92	108.37
Switzerland (57)	76.54	-2.0	64.69	75.06	2.26	76.79	64.87	75.17	86.75	74.13	77.78
United Kingdom (314)	150.73	+11.4	127.41	127.41	4.26	152.43	128.77	128.77	152.54	120.66	124.87
USA (568)	119.19	+5.3	100.75	119.19	3.61	120.53	101.82	120.53	121.90	99.19	105.14
Europe (1006)	120.00	+4.7	101.43	109.29	3.49	120.76	102.01	109.89	120.76	97.01	98.81
Nordic (126)	146.85	+5.2	124.13	134.66	1.95	146.25	123.55	134.06	146.85	98.11	105.28
Pacific Basin (676)	191.54	+2.8	161.90	155.84	0.68	191.61	161.87	156.08	192.26	130.81	143.39
Euro-Pacific (1682)	162.91	+3.4	137.70	137.34	1.52	163.26	137.92	137.71	163.26	120.36	125.58
North America (693)	119.98	+5.4	101.41	118.96	3.58	121.32	102.49	120.27	122.73	99.78	105.50
Europe Ex. UK (692)	101.05	-0.3	85.41	98.08	2.84	101.26	85.55	98.18	102.91	80.27	82.64
Pacific Ex. Japan (220)	137.34	+10.3	116.09	115.08	4.20	137.68	116.31	115.47	137.68	87.51	89.26
World Ex. US (1880)	161.56	+3.5	136.56	136.47	1.59	161.94	136.81	136.87	161.94	120.26	125.07
World Ex. UK (2134)	144.75	+3.3	122.35	130.97	1.98	145.38	122.81	131.60	145.38	111.77	116.61
World Ex. So. Af. (2388)	145.37	+4.0	122.87	130.76	2.18	146.10	123.42	131.46	146.10	113.26	117.32
World Ex. Japan (1992)	120.84	+5.4	102.14	115.68	3.58	121.92	102.99	116.68	122.34	100.00	102.70
The World Index (2448)	145.26	+4.0	122.78	130.63	2.19	145.99	123.33	131.33	145.99	113.37	117.33

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.62 (US $ Index), 114.42 (Pound Sterling) and 123.18 (Local).

CONSTITUENT CHANGES: Insert: Feb.7: DSM (Netherlands). Deletions: Feb.6: Woolworths (Australia), Feb.9: RJR Nabisco (U.S), Feb.10: Havas (Certs.) (France).
US Index was based on 3pm (local time) prices.

EUROPEAN OPTIONS EXCHANGE

[illegible]

BASE LENDING RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

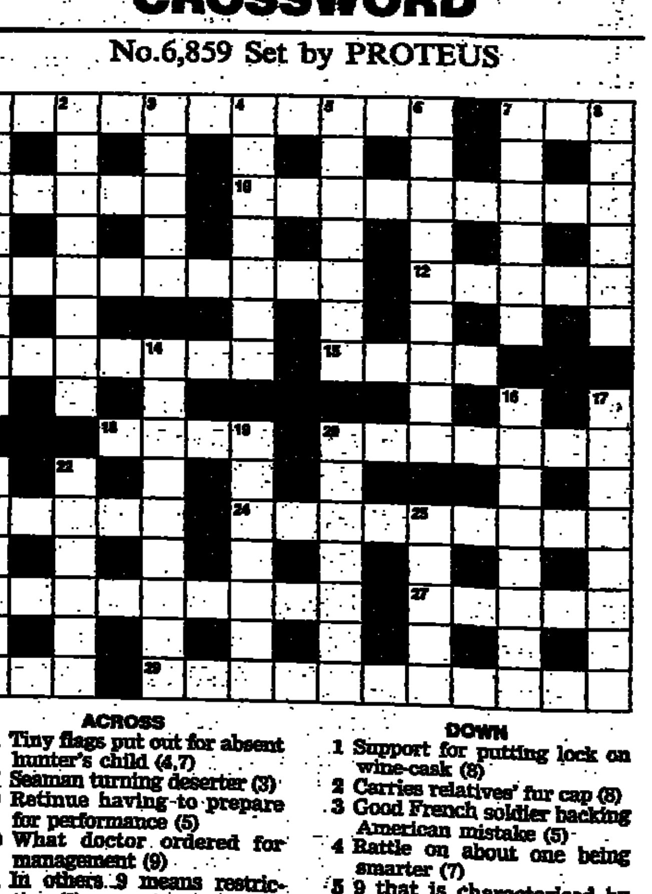
[illegible]

... cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. ‖ Placing price. †† Reintroduction. ‡ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. § Unlisted securities market. ‡ Official London listing. □ Including warrants entitlement. * Third Market.

JOTTER PAD

CROSSWORD

No.6,859 Set by PROTEUS



ACROSS

1 Tiny flags put out for absent hunter's child (4,7)
7 Seaman turning deserter (3)
9 Retinue having to prepare for performance (5)
10 What doctor ordered for management (9)
11 In others 9 means restriction (9)
12 Bird seen on fisherman's leg (5)
13 Child playing with butterfly? (7)
15 Recess in which some cheap seats may be obtainable (4)
18 Some shares table: others .... (4)
20 Tattle about the Spanish priest (7)
23 Hurry with a stereophonic part (5)
24 Abolished entrance in broad terms? (9)
26 Made new egg-shaped tear outside (9)
27 Turkish officer getting in once more (5)
28 Bishop's office in Japanese empire (3)
29 Hastily assembled team to tickle the ribs (7,4)

DOWN

1 Support for putting lock on wine-cask (8)
2 Carries relatives' fur cap (8)
3 Good French soldier backing American mistake (5)
4 Rattle on about one being smarter (7)
5 9 that is characterised by passivity (7)
6 Tags we too misquote and allow to deteriorate (2,2,5)
7 Fashionable attempt without aim (6)
8 Abandon work and go to bed (6)
14 Soft substitutes for pickles for instance (9)
16 Singers who throw artist over it (8)
17 Minding figure at ball (8)
19 Vehicle going right over player (7)
20 Stone forming Persian fairy's dowry (7)
21 Drinks to securities (6)
22 Practice United States can perhaps emulate first (6)
25 Architect said to snap teeth in rage (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 25.

AUSTRIA

1988/89 High	Low	February 10	Price Sch
2,070	1,850	Creditanstalt	2,060
3,950	2,600	Goesser	3,940
15,580	9,350	Interunfall	14,910
11,100	4,660	Jungbunzlauer	11,100
406	332	Laenderbank	388
690	581	Perlmooser	680
965	760	Reininghaus	965
207	151	Semperit	190
123	71	Steyr-Daimler	80
723	555	Veitscher Mag	700

BELGIUM/LUXEMBOURG

FRANCE (continued)

1988/89 High	Low	February 10	Price Frs.
2,795	1,428	Arjomari-Priou x	2,795
1,164	668	Auxiliaire d'Ent	921
870	430	BIC	799
716	378	BSN	674
600	304	Bancaire Cie	560
342	198	BNP (Cert. Inv.)	342
660	281	Beghin-Say	660
420	215	Do. Certs	405
3,340	1,760	Bongrain	3,110
715	367	Bouygues	588
1,390	349	Carnaud	594

GERMANY (continued)

1988/89 High	Low	February 10	Price Dm.
302	223	BASF	302
193	168	Badenwerk	193
312.5	237.1	Bayer	311
398	298	Bayer-Hypo	380
554	429	BMW	521
396.5	379.5	Bayer-Vereln	394
600	400	Beiersdorf	535
139.5	103	Berliner Kraft	108.5
455	257	BHF-Bank	455
378	171.5	Bilfinger & Berg	364.5
420	277	Brown-Boveri	420

ITALY (continued)

1988/89 High	Low	February 10	Price Lire
5,200	2,710	Rinascente La	4,905
47,000	32,500	RAS	40,250
3,270	1,771	SIP	2,665
9,250	5,780	Saffa A	8,580
2,990	1,980	Saipem	2,680
4,670	2,940	SASIB	4,350
37,000	18,200	Sisosigeno	32,850
10,850	7,021	Sirti Spa	9,030
2,185	949	SMI	1,251
2,950	1,621	Snia BPD	2,665
23,820	14,570	Toro Assicur	21,310

SWEDEN

1988/89 High	Low	February 10	Price Kronor
261	144	AGA B (Free)	261
500	252	Alfa-Laval B (Free)	488
421	285	Asea A Free	417
423	286	Asea B (Free)	412
264	180	Astra B (Free)	257
337	151	Atlas Copco A (Free)	337
314	192	Electrolux B (Free)	312
404	154	Ericsson B (Free)	404
228	140	Esselte B (Free)	208
129	92	Gambro B Free	121
405	260	Mo Och Dom B Free	394

DENMARK

FINLAND

NETHERLANDS

SWITZERLAND

NORWAY

SPAIN

SOUTH AFRICA

JAPAN

AUSTRALIA (continued)

HONG KONG

AUSTRALIA

SINGAPORE

CANADA

TORONTO

Closing prices February 10

Quotations in cents unless marked $.

Sales	Stock	High	Low	Close	Chng
173728	AMCA Int	485	485	475	
8700	Abitibi Pr	$20⅛	20⅛	20⅛	
4300	Agnico E	$12½	12⅛	12⅛	
254124	Alberta En	$16⅞	16⅝	16⅝	
85887	Cineplex	$17⅞	17⅞	17⅞	− ⅛
1900	Co Steel f	$17¼	17¼	17¼	− ¼
120048	Cominco	$26⅛	25⅞	25⅞	− ⅜
10800	Computlog	$5	5	5	
110070	Connaught	$27⅜	27⅛	27⅜	+ ⅛
29718	Con Bath A	$24½	24⅜	24½	
1139	C HCI A f	$8¼	8¼	8¼	− ¼
37380	Con TVX	$6⅞	6⅝	6⅝	− ⅜
5827	Cnsum Gas	$25⅜	25	25⅜	+ ⅛
1800	Cnsum Pkg	$21½	21½	21½	
200	Ivaco B	$12	12	12	+ ⅛
26741	Jannock	$20¾	20½	20⅝	− ⅛
600	Kerr Add	$23⅛	23⅛	23⅛	+ ⅛
34092	Labatt	$22⅞	22⅝	22⅝	− ⅛
181275	Lac Mnrls	$13⅛	13	13⅛	+ ⅛
1008	Lafarge p	$18⅝	18⅝	18⅝	− ⅜
54200	Laidlaw A	$20	19⅞	19⅞	− ⅛
782726	Laidlw B f	$19⅞	18⅞	18⅞	− ⅛
1700	Laur Gr B	$7	6⅞	6⅞	− ¼
7000	StL CemA f	$16½	16⅜	16⅜	
18150	Samuel MT	$17⅛	16¾	17	− ¼
5375	Saskoil	$9⅜	9¼	9⅜	
16175	Sceptre	390	375	375	
1000	Scot Paper	$19	19	19	
14300	Scotts f	$14	13½	13⅝	− ⅛
7200	Scotts C	$14¼	14¼	14¼	− ⅛
174439	Seagram	$81½	80⅛	80⅛	− 1⅜
35752	Sears Can	$13½	13	13	− ⅛

MONTREAL

Closing prices February 10

Sales	Stock	High	Low	Close	Chng
8203	DomTxtA	$15½	15⅛	15⅛	− ½
1125	MntTrst	$17⅛	17	17	
100488	NatBk Cda	$12⅞	12⅝	12¾	− ⅛
21619	Noverco	$11⅝	11½	11½	
814057	Power Corp	$15⅛	14⅞	14⅞	− ½
20297	Provigo	$10⅞	10½	10⅞	
222053	Royal Bank	$39⅛	38⅛	38⅞	− ½
6351	SteinbrgA	$33⅞	33¼	33¼	− ⅜
18136	Videotron	$15⅜	15⅛	15⅛	− ⅛

Total Sales 7,544,290 shares.

INDICES

NEW YORK DOW JONES

	Feb 10	Feb 9	Feb 8	Feb 7	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2286.07	2323.04	2343.21	2347.14	2347.14 (7/2/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.13	89.56	89.62	89.46	91.25 (3/3/88)	86.12 (4/1/88)	-	-
Transport	1059.99	1068.89	1076.16	1087.97	1087.97 (7/2/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	186.23	188.00	190.14	190.85	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2322.32 (2347.68) Low 2278.93 (2308.39)

STANDARD AND POOR'S	Feb 10	Feb 9	Feb 8	Feb 7	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite ‡	292.02	296.06	298.65	299.63	299.63 (7/2/89)	242.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	337.26	342.16	345.31	346.41	346.41 (7/2/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	26.47	26.94	27.18	27.24	27.24 (7/2/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	164.01	166.13	167.69	168.02	168.02 (7/2/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	322.77	325.36	327.23	326.38	327.23 (8/2/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	402.37	406.39	407.97	409.19	409.19 (7/2/89)	331.97 (12/1/88)	455.26 (26/8/87)	54.87 (31/10/72)

	Feb 3	Jan 27	Jan 20	year ago (approx.)
Dow Industrial Div. Yield	3.45	3.46	3.59	3.63
	Feb 8	Feb 1	Jan 25	year ago (approx.)
S & P Industrial div. yield	3.05	3.05	3.12	3.09
S & P Indl. P/E ratio	13.85	13.79	13.40	16.29

TRADING ACTIVITY † Volume

Millions	Feb 10	Feb 9	Feb 8
New York	173.560	224.220	189.420
Amex	11.180	11.520	12.637
OTC	132.731	146.680	152.729

NEW YORK	Feb 10	Feb 9	Feb 8
Issues Traded	1,967	1,953	1,961
Rises	300	504	732
Falls	1,221	996	729
Unchanged	446	453	500
New Highs	25	78	149
New Lows	14	9	7

CANADA

TORONTO	Feb 10	Feb 9	Feb 8	Feb 7	1988/89 High	1988/89 Low
Metals & Minerals	3431.3	3505.9	3551.9	3554.9	3564.9 (6/2/89)	2238.7 (8/2/88)
Composite	3594.7	3652.1	3696.1	3679.7	3696.1 (8/2/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1786.68	1819.19	1850.44	1842.23	1850.44 (8/2/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Pan Am	4,927,200	4⅛	+ ¼	IBM	1,921,400	125	− 1⅛
Burlington	4,250,900	48	+ 1¼	Genentech	1,815,100	21½	+ 1⅛
Cen Hl Ps	3,042,100	21⅜	− ¼	Xerox	1,717,500	65	+ 1¼
Lilco	2,568,700	12⅜	− 1⅛	AT&T	1,631,700	31⅝	− ⅛
Sn Pub Svc	2,083,700	26⅛	− ⅛	Ramada Inns	1,628,600	11	+ ⅝

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 10	Feb. 9	Feb. 8	Feb. 7	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1509.0	1513.6	1501.3	1492.0	1657.8 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	689.5	690.7	683.0	678.9	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	238.20	237.52	236.88	234.90	238.20 (10/2/89)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	5834.01	5813.71	5791.01	5775.40	5834.01 (10/2/89)	3608.35 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	291.83	291.57	289.88	289.65	291.83 (10/2/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	772.4	767.6	761.2	756.8	772.4 (10/2/89)	530.6 (15/1/88)
FRANCE						
CAC General (31/12/82)	454.1	(u)	456.4	452.0	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	106.7	(u)	107.5	106.3	108.1 (3/2/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	566.84	567.33	569.27	564.44	569.27 (8/2/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1693.7	1695.8	1701.2	1687.0	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1353.22	1347.42	1359.88	1344.94	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3184.16	3209.96	(c)	(c)	3209.96 (9/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	579.08	579.97	580.49	578.33	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	32131.99	32078.43	32065.12	31880.6	32131.99 (10/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2485.71	2489.07	2490.07	2472.30	2490.07 (8/2/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	308.3	310.1	310.7	307.7	310.7 (8/2/89)	205.7 (4/1/88)
ANP-CBS Industrial (1970)	270.8	271.4	272.7	270.9	272.7 (8/2/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	547.28	549.07	547.33†	543.79	549.44 (30/1/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1156.04	1156.39	1151.80	(c)	1177.87 (8/8/88)	833.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1372.0	1378.0	1359.0	1334.0	1451.0 (7/7/88)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	2246.0	2246.0	2216.0	2183.0	2246.0 (9/2/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	279.26	279.56	279.59	279.86	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3657.4	3635.4	3623.0	3594.7	3657.4 (10/2/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	644.0	640.6	638.1	629.9	644.0 (10/2/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	516.6	516.6	514.5	516.6 (8/2/89)	401.0 (21/1/88)

♦Subject to official recalculation. †Corrected Index.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 10 February 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujita	90.5m	1,570	+170	Kumagai	42.9m	1,460	+110
Nishimatsu	53.2m	1,510	+130	Sumitomo Realty & Development	39.8m	1,920	+140
Sato Kogyo	49.8m	2,380	+200	Mitsubishi Heavy Ind	28.8m	1,170	uch
Mitsui OSK Lines	47.6m	853	+38	Hazama	28.7m	1,610	+200
Taisei	46.4m	1,610	+60	Kobe Steel	25.7m	818	-12

AMEX COMPOSITE PRICES

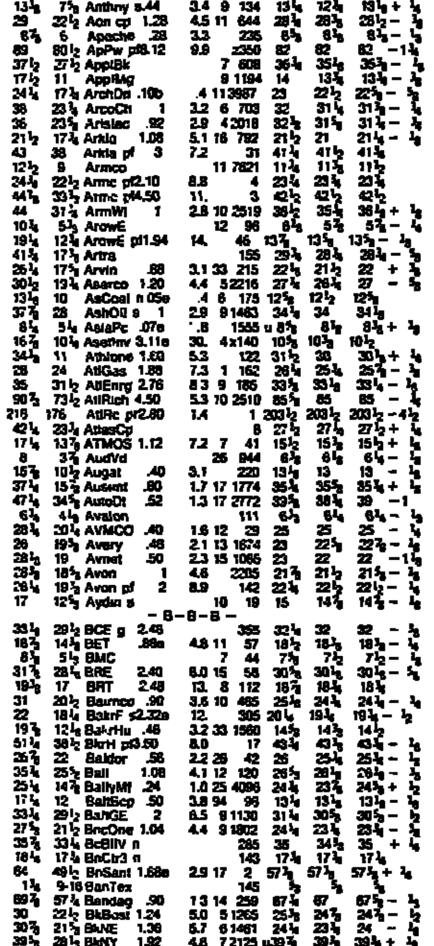
4pm prices February 10

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
AT&E			56	8⅞	8⅝	8⅝	− ⅛
ATT Fd2.23e			66	43⅞	43⅞	43⅞	− ⅛
Acton		12	55	15⅝	15½	15½	− ½
AirExp		10	42	17	16⅞	16⅞	+ ⅛
AlbaW			8	6⅞	6⅞	6⅞	+ ¼
Allin		18	307	3⅞	3⅜	3⅞	+ ⅛
Allstar	1		184	6⅛	6⅛	6⅛	
Alphaln			75	4¼	4⅛	4⅛	− ¼
Alza		51	1273	26½	25⅞	25⅞	− ½

4pm prices February 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
23½	18¼	AAR	.44	1.7	18	658	26⅛	25⅝	25⅝	- ⅞
10¼	8⅝	ACM n	1.01	11.		448	9¼	9	9	- ¼
12⅝	10¼	ACMIn	1.25a	11.		593	11⅛	10⅞	11⅛	+ ⅛
10⅛	9½	ACM M n	1.01	11.		214	9⅜	9⅛	9⅛	- ¼
12¼	10⅛	ACM Sc	1.26	12.		637	10⅞	10¾	10⅞	+ ⅛
10⅛	8½	ACMSp	n.75e	8.8		397	9	8¾	8¾	- ¼
5⅛	2⅝	AMCA	.12e	3.0		138	4⅛	4	4	
6¼	3½	AM Intl				569	5¾	5⅝	5⅝	- ⅛
23⅛	18⅞	AM Int pf	2	8.8		4	22¾	22⅝	22⅝	- ¼
62¼	35¾	AMR			7	3596	58½	57¼	57⅜	- ⅞
24⅛	21½	ANR pf	2.12	9.0		122	23½	23½	23½	+ ½
9½	5	ARX				135	5⅝	5¼	5¼	
48¾	35¼	ASA	.36	7.9		z1096	40⅝	39⅞	39⅞	- ⅞
20¼	13⅛	AVX	.24	1.3	9	291	18⅛	17⅝	18	- ⅝
52⅝	42⅞	AbtLab	1.20	2.5	15	4135	49¼	48¾	48¾	- ⅜
20¼	15⅛	Abitibi g	1			142	17½	17¼	17⅜	- ⅛
13⅞	7½	AcmeC	.40	3.9		180	10½	10⅛	10¼	- ¼
8⅞	5⅞	AcmeE	.32b	5.1	22	6	6⅜	6¼	6¼	- ⅛
29½	17¼	Acusn			22	504	25⅝	25	25¼	- ½
17	14½	AdaEx	1.82e	12.		77	15	14⅞	14⅞	
16⅞	7⅛	AMD			60	2270	8⅞	8⅝	8¾	- ⅛
43½	26¼	AMD pf	3	9.4		2	32	32	32	
8⅛	5⅞	Adobe				20	7⅛	7¼	7¼	- ⅛
18½	16½	Adob pf	1.84	11.		5	17½	17½	17½	
21⅞	20	Adob pf	2.40	12.		2	20¾	20⅞	20¾	+ ⅛
9¾	5⅞	Advest	.12	1.4	18	66	8⅝	8⅜	8⅜	- ¼
52½	38½	AetnLf	2.76	5.5	8	1083	50⅜	49⅞	50	- ¼
44½	24	AhlPb s	.22		6	779	41¼	39½	39⅝	- 1⅜
18¾	13⅞	Ahmans	.88	5.0	9	3083	18⅛	17⅝	17⅝	- ⅜
4⅝	1⅞	Aileen			21	9	3⅝	3⅝	3⅝	- ⅛
53⅛	37¼	AirPrd	1.20	2.6	12	1427	46¼	45⅜	46	- ¾
24	14⅞	AirbFrt	.60	2.6	23	212	22¼	21⅞	22¼	+ ¼
18	10	Airgas			18	52	16¾	16⅝	16¾	- ⅛
20	17¼	Airlease	2.40	12.	9	45	19½	19⅛	19⅜	- ⅛
26½	22½	AlaP pf	2.09e	8.6		100	24¼	24¼	24¼	+ ⅛
9⅞	8½	AlaP dpf	.87	9.7		88	9⅛	9	9	- ⅛



Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
50¾	46	Xerox pf4.13		8.8		2	47	47	47	
44½	28½	XTRA	.72	1.8	15	136	41⅛	40⅝	40⅝	- ⅞
3⅞	2	Zapata				380	3	2⅞	3	
27⅛	17½	Zayre	.40	1.6	166	1377	25⅝	25⅛	25⅛	- ⅝
15½	10	Zemex	.40	3.4	25	2	11⅞	11⅞	11⅞	
30	14⅞	ZenithE				2652	20	19¼	19⅝	- ⅝
10⅝	8⅞	Zenin n .68e		7.0		107	9⅞	9½	9⅞	+ ⅛
3	1	vjZenLb				392	1⅞	1⅛	1¼	- ⅛
21⅞	15	ZenNtl	.80b	4.3	8	371	18⅞	18½	18½	- ¼
19⅞	13	Zero	.44	2.3	18	380	19⅝	19	19¼	- ⅜
29⅛	19	Zurnin	.65	2.4	18	107	28½	28	28	
11¼	9¼	Zweig	1.08e	10.		406	10⅝	10½	10½	- ¼
10⅛	9	ZweigT	n.24e	2.6		871	9½	9⅛	9¼	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

OVER-THE-COUNTER

Nasdaq national market, 4pm prices February 10

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

The Business Column

The need to open up corporate Germany

West German companies have never been a mine of information, especially when compared with their US and British rivals. Delays, evasions and sheer obstructive tactics are often, though not always, the hallmark of German boardrooms and press offices.

But in an atmosphere of increasing global competition, trans-border partnerships and tougher financial disclosure rules, perhaps it is time for a more open approach from companies in the world's largest exporting economy.

The complaint is heard both from journalists and stockbrokers' analysts – often from foreigners unwilling to settle, as their German counterparts sometimes appear to do, for the limited diet of official company statements and meetings.

Analysts cite a large German company that recently held investors' meetings in London and Edinburgh. Grateful for the chance to ask questions, many none the less left frustrated. The managers taking part were not prepared for the sort of searching questions they received.

Journalists' complaints tend towards practicalities about access and deadlines. Take an example from Daimler-Benz, the country's biggest industrial concern – and a company which is trying to project a less forbidding image. Several times in recent months, approaches to investigate rumours or obtain background information have met not with defensive tactics, but with the reply that all press officers are in meetings, away, or on the telephone. Constant calls receive the same answer.

Why such elusiveness?

In Britain or the US, reaching the chairman or a top executive is not necessarily easy. But it is not always the abortive exercise it usually is in Germany for both journalists and analysts. To be fair, German businessman are often on the move or in meetings. Their companies have heavy export commitments, and the country has no dominant capital city or business centre. Frequent travel is essential.

Even so, the unwillingness of many companies to make themselves more available seems to go beyond such practicalities. Gaining access can be frustrating, especially when information is needed in a hurry or late in the day. Arranging appointments can also take ages: recently Hoechst was asked for an interview in the next four weeks; three weeks later a journalist was told that no-one was available for a further six weeks.

This inaccessability may have something to do with a general lack of spontaneity in German corporate life – an addiction to legalism and hierarchy. It may, too, be linked with the fact that many quoted companies are still under family control and have traditionally not felt obliged to offer much information. Others have only a minority of equity in public hands, and these are not always voting shares. Managers answer, in effect, to the big banks, not to outside shareholders.

But business conditions are changing. In a more open and competitive capital market, German companies will find it harder to ignore the outside world. When equity markets play a more important role in an economy, greater corporate openness does not just benefit outsiders: it also helps managers to raise capital efficiently - and, sometimes, to preserve their independence.

So what is to be done? The main impulses need to come from senior management. A more flexible approach from the top would work wonders. Some German companies, like Continental (tyres), Kaufhof (stores), and Metallgesellschaft (metals and mining) have a fairly open policy. Others like Linde (gases and fork lift trucks) are generally less free with information, though well favoured by investors. As for the big banks, Commerzbank is probably easiest to deal with, while Deutsche Bank now seems to be making its way towards a less rigid approach to the media.

Maybe the onset of 1992, with increasing cross-border competition, deregulation, and mergers, will have a liberating influence on attitudes to the press. For some big companies, it cannot come soon enough.

Andrew Fisher

THE MONDAY INTERVIEW

Giving the world a new philosophy

Hugo Dixon speaks to Ryuzaburo Kaku, president of Japan's Canon group

Mr Ryuzaburo Kaku, president of Canon – the Japanese photocopier, laser printer and camera group – is a businessman's Jeremiah. "Unless Japan changes its national target," he says, "Japan will have to face destruction." To avoid the hostility that Japanese industry risks arousing abroad, he is charting a new course it must follow if it is to live at peace with the rest of the world.

Mr Kaku's apocalyptic visions stem from his harrowing experience during the Second World War, especially witnessing and surviving the bombing of Nagasaki. "The biggest concern I have is whether human beings can continue to live on the small planet Earth in several hundred years. We are still fighting each other, killing each other."

Mr Kaku's focus these days, however, is economic rather than military peace. The concern is not surprising at a time when Japanese companies – particularly electronics concerns – are coming in for increasing criticism for dumping products on foreign markets and other unfair trading practices. In his last few months with Canon – he is due to retire at the end of March – he spends his time preaching a philosophy which could sound a shade hypocritical in view of the company's aggressive approach to foreign markets.

At his Tokyo headquarters in a skyscraper looking towards Mount Fuji, Mr Kaku explains that there are four stages in the evolution of a corporation. In the first, capitalists exploit workers. In the second, employers realise that the corporation can only flourish with the active participation of employees. Employers and employees join forces, but consumers continue to suffer.

In the third stage, the corporation realises that its progress depends on the health of the surrounding community. It therefore makes common cause with its local community – whether that is a town, a city or an entire nation – but pays little attention to the effect that its actions have on other communities.

It is in this third stage that most of Japanese industry at present finds itself, according to Mr Kaku, which is the principal cause of its unpopularity with its trading partners. But this situation is not sustainable, because Japan's trading partners will not permit it. "We can see the signs of this in European anti-dumping and the US omnibus trade bill," says Mr Kaku.

Japanese companies should therefore take a further step on their evolutionary path and turn themselves into what Mr Kaku calls "truly global corporations." In this stage, the nationality of a company would be irrelevant, because it would realise that its community is the entire world.

Japanese companies would work for the betterment of other countries as well as Japan, they would live in "rewarding co-existence" with foreign companies and there would no longer be a trade surplus because they would be producing goods in the countries where they sold them. "Unless each company is converted into this kind of philosophy, we cannot save the Earth."

PERSONAL FILE

1926 Born, Oh-ita-ken. Educated Kyushu University
1954 Joined Canon
1968 Appointed General Manager, finance division
1972 Appointed to Board of Directors
1977 President and Representative Director
1985 Awarded the Legion d'Honneur (France), and Medal of Honour with Blue Ribbon (Japan)

It may seem a bit much for Canon, which has a reputation for being one of the most aggressive corporate players anywhere in the world, to be preaching the gospel of rewarding co-existence. It targeted the 35mm camera market in the 1930s, and eventually snatched world leadership from Leica of Germany; it targeted photocopiers in the 1970s, and sent Xerox of the US into a tailspin. And, if you had to pick a single Japanese company that epitomises export-led growth, you could hardly do better than choose Canon, which sells overseas nearly 70 per cent of what it produces.

Mr Kaku – a chain-smoking 62 year old – has answers to each of these criticisms. Canon's practice of targeting a rival "is not done for the purpose of making that company bankrupt but to enhance the morale of the (Canon) employees. Companies which go bankrupt are more or less idle, not putting in their due effort. In some senses, they deserve it."

And Mr Kaku argues that Canon is dealing with its high level of exports by building factories abroad. It has two in the US and one each in France, West Germany and Taiwan.

The problem is that setting up plants overseas is not enough to silence the criticism. The European Commission, for example, now looks carefully to make sure that Japanese companies are not evading its anti-dumping duties by setting up "screwdriver" operations in Europe which simply assemble Japanese-made components. Canon tasted some of this medicine last year when the EC slapped anti-dumping duties on its "European-made" photocopiers, although these have since been removed as the percentage of local content has increased.

But it is not clear that increasing the quantity of local content on its own will allow Canon to make the transition to a truly global corporation. There is a growing fear in the West that Japanese companies are simply transferring low-tech and menial functions to their foreign operations, but keeping all the high-tech functions and – crucially – the power at home. Making pieces of plastic and bashing metal may create jobs, but few Europeans and Americans are happy with a future which makes them economically subservient.

Japanese companies which have set up factories in the West are therefore being asked: Where are the high-technology components made? Where is the research and development done? Where are management decisions taken and who is taking them?

In Canon's case, the answers to these questions are mostly "Japan". The brains of its photocopiers and laser printers are made in Japan. Only a small amount of research and development (R&D) is done in the US, while the research presence in Europe is minuscule – five software engineers in a facility in England. And, although a third of Canon's worldwide workforce of 35,000 is non-Japanese, most are in junior positions.

The company's German plant was originally run by a German executive, but he was replaced with a Japanese one. A Frenchman was once in charge of the French operations but, as they grew, he decided to retire. As a result, none of the group's plants or major sales subsidiaries is run by anyone who is not Japanese. The most important foreign-run subsidiary is Canon's Belgian marketing operation – headed by a Finn.

Mr Kaku tries to allay these fears by pointing to Canon's good intentions:

● As production increases, the company will start making key components – such as the engines for laser printers – in its foreign plants.

● On the R&D front, Canon hopes to employ 100 people in Europe by 1992. "At present, we are still at the stage where a machine is developed in Japan, but we are now thinking of developing products outside Japan too."

● In the long term, local subsidiaries will be run by locals. At some stage, the president of Canon could be non-Japanese and the group's headquarters could be moved outside Japan.

But is pointing to good intentions enough? Mr Kaku argues that at present there are few non-Japanese employees in top positions partly because the company has found it difficult to attract high-calibre foreign graduates. "Rome was not built in a day. We are trying to hire people from the best universities, but so far the perception of Canon is not high and we cannot offer suitable jobs."

One explanation for this may be that potential non-Japanese recruits feel they will be joining an institution where the foreign culture puts them at a disadvantage.

But cultural barriers are not unique to Canon. Other Japanese companies which are trying to become more international are also struggling. On the other hand, Western companies, which have been in the multinational business for much longer, have programmes such as frequent exchanges of personnel which aim to pull the barriers down.

At Canon, in spite of Mr Kaku's ideal of creating a truly global corporation, the cultural barriers are still firmly in place. Mr Kaku insists that foreigners must be fully steeped in Canon's philosophy before they can be given a senior management post. Since little is being done to enable foreign employees to gain first-hand experience of this philosophy – they are not brought to Japan for anything longer than two week trips – non-Japanese are effectively barred from the top positions.

In reply to these doubts, Mr Kaku says that Canon is a young company – it celebrated its first 50 years in 1987 – and that his programme of converting it into a truly global corporation will not be achieved overnight. "The time span we are considering for this campaign is 50 years."

But will 50 years be soon enough to keep protectionism in the US and Europe at bay? "Japanese companies are operating pretty well because we have long-range planning" is Mr Kaku's riposte.

'Unless each company is converted into a global philosophy, we cannot save the Earth'

Why EC subsidies breed fraud

A.H.HERMANN

For more than a decade the horror story published each year by the Court of Auditors of the European Communities has been treated with studied brevity by the other eloquent spokesmen of the Commission. It has been blissfully ignored by member governments whose methods of handling, and accounting for, agricultural subsidies from the EC budget have not always met with the board's approval.

True, the Commission has always found a form of words to justify or excuse whatever displeased the auditors. Occasionally it has promised to do better in the future. These replies did little to put right the weaknesses of the Commission's internal audit structure, which is controlled by the spending departments instead of providing an independent check on their activities. Nor did they – in the overseas aid arena, for example – stop the Community providing aid funds for the construction of hospitals which could care for thousands of people if only they were not built in a place without water; or put an end to the cozy relationship between aid-recipient governments and their suppliers and subcontractors.

These, however, are trifles. The real hydra of the Community budget is the elaborate system of agricultural fraud. It seems to grow in step with the EC budget. Whenever one of its heads is slain, it grows three new ones, unconcerned by the nagging of the auditors. It is now estimated to have reached the annual figure of Ecu 6bn, about a tenth of the EC budget. This seems to be more than the Whitehall mandarins can take with equanimity, particularly when it is suspected that part of the money is siphoned into Mafia and terrorist coffers.

Mrs Margaret Thatcher, the British Prime Minister, has decided something must be done. Fraud on such massive scale is not simply the work of the criminal classes. Thousands and thousands of farmers and traders, impeccably honest in all other aspects of their lives, simply cannot resist the temptation of collecting money made so easily available. It does not, after all, come from the pocket of anybody identifiable, not even from the national purse, but from the anonymous treasury of the Community.

Countless devices have been invented for getting subsidies where none are due. New ones are being constantly invented to replace those which became too well known.

Apart from the enthusiastic generosity of the national marketing institutions in distributing Community funds, there is a lot of private enterprise involved. Goods are exported publicly to collect an export subsidy and re-imported secretly to be available for another "export" transaction; goods are declared to be something else, to qualify for subsidy; goods are imported to be "made up" by a cheap addition to qualify for subsidy. At one end of the spectrum, there is naked fraud, when a friendly customs officer stamps documents for goods which never crossed the frontier. At the other end of the spectrum lies the almost legal arrangement of affairs so that they result in the greatest possible subsidy. In between, there are endless variations of what can be termed "structural fraud," because it is the consequence of a particular structure of economic *dirigisme*.

So far, no one has succeeded in suppressing structural fraud by administrative and police methods. Of course, it is always possible to book a few culprits. From time to time, an ingenious and enterprising "exporter" – occasionally even a Mafioso – gets caught. Even less frequently, a respectable bank can be persuaded to tell tales about the fancy money flowing into the accounts of some of its equally respectable customers.

The catching of a few small fish, however, makes little difference to the temperature of the water. If Mrs Thatcher only has repressive measures in mind, she will be no more successful than Mr Mikhail Gorbachev in his efforts to repress bribery and the black market in the Soviet Union.

When it comes to fraud, bribery and a black market conducted by large sections of a normally decent population, the Community and Comecon have something in common. In both cases it is the disparity between the market price and an artificial, officially-ordained price level which drives people into illegality. In any centrally planned economy where official prices are kept too low to provide an incentive to producers, market forces prove stronger than the law. Consumers – and not only private consumers – are glad to pay more than the official price, if only they can get the scarce supply. They, in their turn, make a surcharge for the goods or services they are supposed to provide either free, (doctors or teachers, for example) or for a fixed price (plumbers, for instance).

Pejoratively called "the black market" or "bribery", these private arrangements constitute a more genuine market than the official one. Without it, shortages would be greater and civilised life almost impossible.

This is why so many people in Communist countries fear that Mr Gorbachev wants to deprive them of the private facilities it took so long to organise. They cannot imagine a functioning market economy which would make such arrangements unnecessary.

In the Community the disparity between market prices and subsidised official prices works differently – the relationship is reversed. Here too, however, economic forces (of which greed is one) prove stronger than the law. Regardless of food surpluses, there seems to be an irresistible temptation to milk the authorities of subsidies by hook or by crook. In some countries, indeed, the influence of the agricultural lobby over the marketing authorities makes some of them enjoy being milked. Structural fraud in the Community cannot be eliminated without first dismantling the system of subsidies.
